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82-399
No.

IN THE

Supreme Court of the United States

October Term, 1982

Span-Deck, Inc.,
Petitioner,
v.
Fabcon, Incorporated and Rauenhorst Corporation,
Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

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QUESTIONS PRESENTED

I. What is required by the relationship between federal patent law and state contract law when two patents constitute part, but not all, of the consideration for a contract awarding a franchise and one of the patents is declared invalid: does federal patent policy bar a state from enforcing a franchise contract despite the presence of other substantial consideration for the franchise, including another patent which is valid?

II. Does the mere assertion of patent invalidity as the reason one induced another to breach a franchise contract require that the question of justification for inducing breach of contract be removed from jury consideration, despite state law requirements of proof of actual motivation, good faith, and other factors before the defense of justification is established?

III. In reviewing factual findings of a jury, is a court of appeals permitted to employ a standard of review different from the substantial evidence standard, despite the precepts of the Seventh Amendment and efficient judicial administration, and instead make its own independent factual findings, contrary to those of the jury, concerning:

(a) the facts underlying the question of obviousness in a determination of patent validity, where most other courts of appeals require a substantial evidence standard of review;

(b) the facts concerning the defense of justification against a claim of tortious inducement of breach of contract; and

(c) the facts establishing whether a franchise contract was automatically renewed in accordance with its terms?

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

Span-Deck, Inc. ("Span-Deck")[1] respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Eighth Circuit entered in this case on May 12, 1982.

OPINIONS BELOW

The opinion of the district court (App. B) dated July 21, 1982 is unreported. The opinion of the court of appeals (App. A) is reported at 667 F.2d 1237 (8th Cir. 1982).

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[1] Span-Deck Inc. is a wholly-owned subsidiary of the St. Regis Paper Company. Span-Deck has no subsidiaries, and the domestic subsidiaries of St. Regis are listed in Appendix I.

JURISDICTION

On May 12, 1982, the court of appeals entered an opinion (App. A) vacating the judgment of the district court and reversing and remanding the matter for further proceedings. Span-Deck filed a timely petition for rehearing on May 26, 1982. The petition for rehearing was denied on June 7, 1982 (App. F). This Court has jurisdiction to review the judgment of the court of appeals by writ of certiorari pursuant to 28 U.S.C. §1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

Set forth in Appendix H are pertinent provisions of the Seventh Amendment to the Constitution of the United States and the Patent Act, 35 U.S.C. §§ 103, 112, and 282.

STATEMENT OF THE CASE

This case involves an attempt to enforce a franchise contract, and to collect damages for its breach and for the wrongful inducement to breach the contract. The jury and the district court found in favor of Span-Deck and awarded compensatory damages of $1.5 million and punitive damages of $2 million.

The Court of Appeals for the Eighth Circuit reversed the judgment of the district court. It concluded, on the basis of its own factual findings, that one of the patents which had been licensed under the franchise contract should have been found invalid by the jury and the district court; that since it had found the patent invalid, a franchise contract which referred to it could not be enforced because to do so would be inconsisent with federal patent policy; and that conduct in inducing the breach of the franchise contract was justified by the assertions of patent invalidity, without regard to actual motivation or good faith.

The remand of the court of appeals recognized the value and transfer of trade secrets, another valid patent, and other non-patent consideration for the franchise contract, but remanded for a determination of the value of nonpatent rights and damages for misappropriation of trade secrets rather than enforcement of the contract.

A. The Span-Deck Process, Trade Secrets and Related Patents.

The Span-Deck franchise contract enables one to engage in the manufacture of prestressed, precast hollow core concrete plank. The Span-Deck franchise is one of several competing franchise systems for the casting of such plank. It is the hollow core feature of such plank which makes the concrete panels sufficiently lightweight and inexpensive to be competitive with other building materials. The means by which the hollow cores are formed is among the items which distinguishes Span-Deck from its competitors. Span-Deck's method and equipment are protected by its trade secrets. It has also acquired two patents covering certain aspects of its equipment: one issued in 1965 to Claiborne Kinnard, and another issued in August, 1970, to William Mitchell.

Claiborne Kinnard developed an apparatus and method wherein a moving casting machine deposits liquid concrete around cores of lightweight granular core material, which passes through slipforms shaping the cores. The slipforms simultaneously shape the liquid concrete to surround highly tensioned steel cables extending from end to end of a stationary casting bed. Enormous tensile forces and weights are necessarily involved. The planks are manufactured as continuous hollow bodies in long casting beds. After curing, individual planks are cut from these long beds. The cores are made hollow by dumping out the granular core material after the concrete has hardened.

William Mitchell's improvement on Kinnard's invention fixed the casting apparatus in place and devised a means by which the bed upon which the concrete was placed could be moved as required for various plank production steps. This improvement solved the even greater material handling problems which arose when wider and longer casting beds were employed, requiring a precise means for moving and controlling a large casting bed in coordination with the stationary casting, curing, cutting, bed stripping, and bed cleaning equipment, and the stockpiling and centralized use of the production materials.

B. The Span-Deck Franchise System.

Since the beginning in 1964, each franchise contract has taken the form of a technical assistance agreement licensing unpatented experience and knowledge, know-how and trade secrets, and trademarks. When the patents were issued in 1965 and 1970, franchise contracts also included rights under those patents.

The Span-Deck franchise fee was established in 1964 before it had any patents, and it has never been adjusted for any reason, except for an inflation increase in 1980. The franchise fee under the contracts entered into before

Span-Deck had any patents required a royalty of three cents per square foot of plank produced, declining with higher production. The franchise fee under the contracts entered into after each patent issued required the *same* royalty, which was not raised or altered in any way in 1965 or 1970 when Span-Deck acquired its patents.

By the summer of 1970, when negotiations for the Span-Deck/Fabcon franchise contract began, Span-Deck had 30 outstanding franchise contracts and had completed installation of approximately 20 plants in the U.S. and Canada, all requiring the same royalty rate.

C. The Breach of the Franchise Contract.

Span-Deck and Fabcon, Incorporated ("Fabcon") entered into a franchise contract (App. G) on October 7, 1970. Fabcon prospered under its Span-Deck franchise. It was in commercial operation within ten months of signing the contract. It doubled its capacity a year and a half later.

In spite of its financial success, early in 1972 Fabcon and Rauenhorst Corporation ("Rauenhorst"), of which Fabcon is a wholly-owned subsidiary, began to take steps to avoid the obligations under the franchise, steps which were inconsistent with the contract. These actions began about one year before the cessation of royalty payments in 1973.

In March, 1972, David Hanson, Fabcon's President, wrote to a business associate that he was not promoting his plant's products as Span-Deck planks, but rather as "Fabcon slabs", contrary to Paragraph 3.5 of the franchise contract (App. G, p. A-76). In August, Fabcon tried to hire Larry Foster, a key Span-Deck engineer. In September, Hanson wrote a memorandum to Gerald Rauenhorst, President of Rauenhorst Corporation, discussing methods "[t]hat might be a way to get out of the royalty." In November, Hanson took steps to keep process improvement information from being disclosed to Span-Deck as required by Paragraph 4.5 of the franchise. (App. G, p. A-78). The continued success of this effort to withhold information was reported to Rauenhorst in late February, 1973.

Fabcon made its last royalty payment to Span-Deck in January, 1973, covering December, 1972 production. At first, Fabcon offered no explanation. On March 5, 1973, Hanson wrote that Fabcon had stopped paying because Fabcon was supposedly entitled to a credit under a "most-favored-licensee" clause of the franchise contract. In fact, Fabcon was having cash flow problems when it stopped paying royalties.

On April 30, 1973, Gerald Rauenhorst met with Ed McMahon, an officer of Span-Deck's parent company. Rauenhorst proposed termination of the franchise, claimed that Span-Deck's patents were invalid or not infringed, and threatened to tell other franchisees of his position if the franchise contract was not terminated. (This is the only evidence that cessation of royalty payments had any relationship to patents). In a subsequent telephone conversation, McMahon told Gerald Rauenhorst that Fabcon had "a franchise agreement above and beyond the patents" and that Span-Deck had certain rights and obligations under the franchise.

D. Commencement of Suit.

Fabcon continued in its refusal to pay royalties, but also continued to exercise its privileges under the franchise contract. Span-Deck did not agree to terminate the franchise. It brought suit against Fabcon and Rauenhorst in the United States District Court for the District of Minnesota on November 1, 1973.[2] Span-Deck's primary claims, stated in Counts I and II of its Complaint, were for breach of the franchise contract, and for tortious inducement of the breach.[3]

The Answer and Counterclaim generally denied the principal allegations in the Complaint and asserted affirmative defenses as to the alternative claims for patent infringement. It also sought a declaratory judgment that the franchise contract was not valid or enforceable due to alleged failure of consideration by reason of the alleged invalidity of the Kinnard and Mitchell patents.

At the time this suit came to trial late in 1980, Span-Deck had 40 active franchises, including franchises in such foreign countries as Canada, Hungary, Finland, Spain, Japan, Dubai, Australia and Venezuela. Other than Fabcon, no franchisee has ever asserted patent invalidity, nor sought to avoid its franchise contract obligations to Span-Deck.

E. The Results of the Jury Trial and Post-Trial Motions.

After extensive discovery and pretrial motions, the matter was tried to a jury of ten persons[4] commencing on

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[2] The district court's jurisdiction was based on 15 U.S.C. § 1121, 28 U.S.C. §§ 1332(a), (c), and (e), and 28 U.S.C. §§ 1338(a) and (b).

[3] The complaint also contained alternative counts applying to any time in which it might be determined that the contract between Fabcon and Span-Deck was not in effect by reason of expiration, cancellation or invalidity. Count III: unauthorized use of Span-Deck's trade secrets; Counts IV and V: infringement of Span-Deck's trademarks (Counts IV and V were withdrawn before the matter was submitted to the Jury); Count VI: infringement of the "Mitchell" patent; and Count VII: infringement of the "Kinnard" patent.

[4] By agreement of counsel, the alternate jurors and the original panel participated and deliberated as jurors in reaching the verdict.

November 17, 1980. On February 9, 1981, after almost forty days of trial, the jury was charged and presented with 22 Special Verdict questions. After a week of deliberation, the jury returned with its answers to the Special Verdict form (App. C).

After ruling on post-trial motions, on July 21, 1981, the district court entered its Memorandum and Order (App. B). That judgment enforcing the jury's Special Verdict awarded compensatory damages of $1.5 million against Fabcon and Rauenhorst for breach of contract, and exemplary damages of $2 million against Rauenhorst for inducement of the breach; the Kinnard patent, though valid, was held not infringed by the equipment used by Fabcon. The Mitchell patent was held valid and infringed.

F. The Decision of the Court of Appeals.

Defendants appealed from the judgment of the district court. In an opinion dated May 12, 1982, a divided panel of the Court of Appeals for the Eighth Circuit vacated the judgment of the district court and reversed and remanded the case.

The court determined that federal patent policy barred enforcement of the Span-Deck/Fabcon franchise contract because it included rights under an invalid patent among the benefits conferred by the contract. It also determined that the mere assertion of patent invalidity was sufficient to remove the question of justification for inducing the breach of contract from jury consideration, despite state law requirements of proof of actual motivation, good faith, and other factors.

In reaching these conclusions, the court determined that the Mitchell patent should have been held invalid, and reversed other factual determinations, based on its own view of the facts, which was contrary to the findings of the jury as separately confirmed by the trial court.

Finally, the court of appeals affirmed the validity of the Kinnard patent and remanded "for a determination of the value of nonpatent rights received by Fabcon from the time Fabcon ceased payment of royalties until termination of the contract on October 6, 1975," and "a determination of damages for misappropriation of trade secrets after the contract termination." (App. A, p. A-27).

REASONS FOR GRANTING THE WRIT

I.

When A Patent Constitutes Part, But Not All, Of The Consideration For A Franchise Contract, Federal Paent Policy Does Not Bar A State From Enforcing The Contract Where Other Substanial Consideration, Including Trade Secrets And Another Valid Patent, Is Present, And The Court Of Appeals Decision To The Contrary Warrants Review By This Court.

In denying enforcement of the franchise contract between Span-Deck and Fabcon, the court below justified its decision primarily by reference to *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969). In doing so, the court below improperly extended *Lear* beyond its holding that a patent licensee is not estopped to challenge the validity of a licensed patent and may withhold royalties while doing so. The result is an unwarranted preemption, in the name of federal patent law, of state contract law permitting the enforcement of otherwise valid contracts. The scope of the rule pronounced in the decision of the court below jeopardizes a large class of existing legitimate business relationships and discourages parties from entering into franchises or technical assistance agreements where a patent or patent application covers a portion of the technology involved. It is also likely to discourage use of the patent system.

A. Prior Decisions of This Court Require That a Proper Accommodation be Struck Between Federal Patent Law and State Law so that State Law Is Only Preempted When it Stands as an Obstacle to Achieving the Purposes of Federal Patent Law.

The history of this Court's recent decisions delineating the proper relationship between federal patent law and state law shows the difficulty and importance of mapping out the area of preemption so as to adequately balance the interests of federal patent law against the compelling tradition that parties are free to contract for patent or other intellectual property rights in exchange for mutually agreed compensation. Although not first in time among those decisions, *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974), perhaps best exemplifies the standards which this Court has used to determine the proper accommodation between federal patent law and state law when the two appear to clash. In *Kewanee*, the Court held that state trade secret protection was not preempted by operation of the federal patent law. In reaching this conclusion, the Court analyzed the objectives of both the federal and state laws, *see* 416 U.S. at 480-482, and examined the interaction of the two systems, *see id.* at 482-492, before determining whether and under what circumstances preemption might apply. The *Kewanee* Court thus both ruled that state law is not automatically preempted by patent law in the area of protection of intellectual property and set forth by example the kind of analysis which must underlie a decision that state law is preempted. The summation of that analysis is the standard that state law governs except to the extent that it stands as an obstacle to frustrate the policies of the federal patent law.

This general standard exemplified by *Kewanee* underlies the Court's other recent decisions as well. Thus, in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), the Court examined contracts involving licensing of patented hop picking equipment in exchange for royalties based on use or production. The contracts provided that royalties were to be paid beyond the life of the patents involved. The Court held that such contracts extended the patents unlawfully and were unenforceable as to post patent expiration royalties. The conflict between the limited seventeen year patent term and the extended royalty obligation made preemption necessary.

In *Lear v. Adkins, supra,* the Court was asked to rule on the viability of the doctrine of licensee-estoppel, which had been invoked by a licensor to try to force a licensee to pay royalties while the licensee challenged the license on the issue of patent validity. The court specifically found requiring continued payment of royalties to be "inconsistent with the aims of federal patent policy." 395 U.S. at 673. It referred to the importance of giving patent licensees an economic incentive to challenge patents. The case also involved a claim for contractual royalties due before the patent issued, i.e., during the period when the licensed technology was an unpatented secret idea. The Court concluded

> "that even though an important question of federal law underlies this phase of the controversy, we should not now attempt to define in even a limited way the extent, if any, to which the States may properly act to enforce the contractual rights of inventors of unpatented secret ideas."

395 U.S. at 675. Justice White, concurring in part, focused even more directly on the federal law-state law tension presented by the case:

> One of the defenses presented by Lear in its answer to Adkins' claim for royalties was that there had been a failure of consideration because of the absence of bargained-for patentability in Adkins' ideas. But failure of consideration is a state law question, and I find nothing in the record and nothing in this Court's opinion indicating that Lear at any time contended in the state courts that once Adkins' patent was invalidated the royalty agreement was unenforceable as a matter of federal law.

395 U.S. at 679 (footnote omitted).

In *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), the Court had occasion to examine another decision by the Eighth Circuit which, like the one here presented to this Court for review, also involved an interpretation of the rule in *Lear*. In *Aronson*, a licensee challenged its duty to pay royalties under a license contract when the licensor's invention, originally licensed as a trade secret, failed to achieve patent protection. The contract contemplated continued royalties at a reduced rate were no patent obtained and without regard to the fact that no trade secret existed once the licensed keyholder was sold. The licensee argued that the *Lear* case prevented enforcement of the contract. The district court had held the contract valid, while the Eighth Circuit held it invalid, based on *Lear*. In its consideration, this Court noted that the matter again called for a resolution of tension between state contract law and federal patent law:

> Commercial agreements traditionally are the domain of state law. State law is not displaced merely because the contract relates to intellectual property which may or may not be patentable; the states are free to regulate the use of such intellectual property in any manner not inconsistent with federal law.

440 U.S. at 262 (citations omitted). After weighing the effect enforcement of such a contract would have on the policies of patent law, this Court concluded that federal law was no barrier to contract enforcement.

In its preemption analysis in *Aronson*, the Court reviewed the same purposes of the federal patent system which it had identified in the *Kewanee* case:

> First, patent law seeks to foster and reward invention; second, it promotes disclosure of inventions to stimulate further innovation and to permit the public to practice the invention once the patent expires; third, the stringent requirements for patent protection seek to assure that ideas in the public domain remain there for the free use of the public.

440 U.S. at 262. After analyzing the effect of enforcement of the Aronson-Quick Point contract on each of the purposes, the Court concluded that the contract was not inconsistent with any of these aims.

Aronson thus stands for the proposition that, where the parties separately stated in the contract what nonpatent consideration was involved in the event patent-based consideration failed, federal patent law did not require that the contract be voided. "The cases and principles [including the *Lear* rule] relied on by the Court of Appeals and Quick Point do not bear on a contract that does not rely on a patent, particularly where, as here, the contracting parties agreed expressly as to alternative obligations if no patent should issue." 440 U.S. at 262. Although hinting at the appropriate result even where no such express statement of alternative consideration has been made, the Court did not rule on the appropriate result in a situation where a patent forms only a part of the contract consideration but the parties have not expressly apportioned the consideration involved.

B. The Decision of the Court Below is Based on the Erroneous Concept of a Hybrid Royalty Rather Than a Proper Preemption Analysis.

The question which this Court did not have to reach in *Aronson* was presented to the Eighth Circuit in this case. Even as it had done in *Aronson*, the Eighth Circuit answered the question by looking to its erroneous interpretation of *Lear* rather than engaging in the kind of careful analysis exemplified by *Kewanee* and reiterated in *Aronson*.

The court of appeals' initial error was failing to clearly identify and give proper consideration to the result required by state law. In particular, the decision simply sets to one side the jury's finding that the contract was supported by considerations other than patents. (See App. C, p. A-57). The decision also overlooks the facts that *two* patents were licensed, that only one was found invalid, and that Fabcon also received trade secrets and continues to use them. It also overlooks the other technical assistance materials and services and the trademark rights provided in paragraphs 2.1 to 2.7 of the contract (App. G, pp. A-71-A-73). Thus, the franchise is clearly supported by consideration, even if the Mitchell patent is, ultimately, held invalid. Under these circumstances state contract law would recognize a valid contract and require that the promised royalty be paid in full. *See, e.g.*, 17 C.J.S. *Contracts* §§ 130-131 (1963 & Supp. 1982) and cases cited therein.

These matters of consideration and enforceability were not addressed by the court below. More importantly, the consequences of enforcing such a contract were not tested to see if they actually stand as obstacles to the goals of federal patent policy, as required before finding preemption. *See, Hines v. Davidowitz*, 312 U.S. 52, 67 (1941). Instead, the Eighth Circuit made the same type of error which required reversal in *Aronson*: the court assumed that *Lear* requires the invalidation of any contract which contemplates a valid patent if no such patent obtains.

The analysis of the court below was based on the concept of a "hybrid royalty", which appears to have been derived from the case of *St. Regis Paper Co. v. Royal Industries*, 552 F.2d 309 (9th Cir.), *cert. denied*, 434 U.S. 996 (1977), as an extension of the *Lear* case. In the *St. Regis* case, a licensor sought recovery of royalties under a license involving a single patent and know-how. The patent was held invalid. The license was rescinded due to the invalidity and because the inventor was held to have knowledge of the patent's invalidity, which was imputed to the licensor. Nevertheless, the licensor argued that the royalty obligation could not be terminated as to know-how because the termination notice required by the license was not given. When the licensor attempted to collect half the contractual royalty based on know-how received by the licensee, the Ninth Circuit examined the termination provision and found the patent rights and the know-how "so intimately intertwined . . . that the same rule which makes royalties for patent rights uncollectible if the patent is invalid should apply with equal force to know-how." 552 F.2d at 315. The provision requiring notice of termination was thus held unenforceable both for patent rights and for know-how. The Ninth Circuit denied the licensor's know-how royalty claim and approved the district court's determination that the licensor's compensation for the value of the know-how was covered by previously paid royalties. While the Ninth Circuit cited *Lear*, its preemption analysis was limited to consideration of the *licensee's* claimed restitution remedy. It did not measure the effect of enforcing the contract as to nonpatent consideration against the purposes of federal patent law but rather against the intent of the parties in their termination provision.

In the instant case, the court below took *Lear*, together with *St. Regis*, as grounds for condemning all contracts in which the royalty is "hybrid" in the sense that a patent forms any part of the consideration for the contract. It concluded that allowing enforcement of any such contract would prevent the "unmuzzling" of royalties to aid licensees in patent challenges in accordance with *Lear*. (App. A, p. A-23). This rule is too broad. It fails to strike a reasonable and reasoned balance between state contract law, which supports the expectation that a contract will be enforceable, and the purposes of federal patent law. The rule stated by the court below is not required by the *Lear* case, nor is it consonant with the *Kewanee* or *Ar-*

onson cases, which show the manner in which a preemption analysis must proceed. The *Kewanee* case, which upholds an entire body of state trade secret law as against a claim of preemption by federal patent law, not only sets forth the required analysis but, *a fortiori*, states the required result. *See Aronson, supra*, 440 U.S. at 265.

To paraphrase this Court's observation in *Aronson*, "[n]o decision of this Court relating to patents justifies relieving [Fabcon] of its contract obligations." 440 U.S. at 264. No attempt is made here to extend a patent beyond its 17 year life. *Cf. Brulotte, supra.* No state law doctrine prevented Fabcon from challenging the validity of the patents or from suspending the payment of patent royalties pending the outcome of that challenge. *Cf. Lear, supra.* On the other hand, the Eighth Circuit's "hybrid royalty" rule, derived not from the *Kewanee* analysis but from the Eighth Circuit's own misapprehension of *Lear*, represents an unwarranted intrusion into state contract law not consistent with the principles of our federalism articulated in *Kewanee* and *Aronson*.

C. The Decision Below Will Have Far-Reaching Effects on Franchises, Technical Assistance Agreements and the Patent System.

If contracts such as the present one are held unenforceable, the impact of such a decision would be far-reaching. First, Span-Deck's other similar contracts would appear subject to the same rule. Second, every company which has a franchise or technical assistance agreement involving a "hybrid royalty" to be paid in exchange for a license of rights to one or more patents in combination with other consideration' will face challenges from licensees who are aware of the long list of available patent invalidity defenses and who wish to stop paying royalties by, in effect, asking a federal court to renegotiate their bargain. Third, parties who license a package of unpatented technology will be discouraged from pursuing patent protection, if the protection sought is anticipated to be part of their licensed subject matter. Fourth, parties who plan to license a technical assistance package including patented technology will look for artificial ways to keep patent rights out of their agreement, lest the entire bargain be later challenged, based on an invalidity claim against the patent license portion of the consideration. Fifth, parties who license a technical assistance package including patents will be forced to artificially segregate patent and non-patent consideration, with separate royalties for each.

The Eighth Circuit's woodenly derived and erroneous answer to the question left open by *Lear* and *Aronson* thus stands as a foreboding precedent in a very significant field. The jurisdiction of this Court should be exercised to affirm the procedures for determining preemption previously stated by this Court and to clearly define the extent to which federal patent law may preempt state contract law to deny enforcement of a contract supported by consideration other than a patent later declared to be invalid.

'The frequent use of such arrangements is seen in Eckstrom, *Licensing In Foreign and Domestic Operations*, §18.04 "Technical Assistance Agreements" and §18.05 "Combination License Agreements," reprinting a number of examples of agreements in which one party provides and licenses a broad package of proprietary rights including patent rights.

II.

The Court of Appeals' Decision that the Mere Assertion of Patent Invalidity as the Reason One Party Induced Another to Breach a Contract Requires Removal of the Question of Justification from the Consideration of the Jury and the Requirements of State Law is an Unwarranted Extension of Federal Preemption Which Merits this Court's Review.

The decision of the court of appeals to rely on the *Lear* case also led to its reversal of Span-Deck's judgment against Rauenhorst for interfering with the contract between Span-Deck and Fabcon. The court of appeals established Rauenhorst's justification defense as a matter of law. It concluded that since cessation of royalties was justified under *Lear*, Rauenhorst's actions were "justifiable under the circumstances" and that a directed verdict or j.n.o.v. should have been granted in its favor (App. A, p. A-19).

This decision had the effect of preempting state tort law under which liability for interference with contract is established, but the court of appeals, ignoring *Kewanee*, failed to consider whether federal patent policy required such preemption.

A. Under Minnesota Law the Existence of Justification for Inducing Breach of a Contract Is a Jury Question.

Minnesota law on the issue of justification inducing breach of contract is clear. First, justification is an affirmative defense, and the burden of proof is on the party accused of inducing breach. *Johnson v. Raade*, 293 Minn.

409, 196 N.W.2d 478 (1972); *Royal Realty v. Levin*, 244 Minn. 288, 69 N.W.2d 667 (1955); *Carnes v. St. Paul Union Stockyards Co.*, 164 Minn. 457, 205 N.W. 630 (1925). Second, what constitutes justification in a specific case is for the jury to decide. Minnesota courts have not attempted to formulate a rule by which justification or lack of justification may be determined, but have said that in general the issue is largely one of fact for the jury, the standard being reasonable conduct under all the circumstances of the case. *Bennett v. Storz Broadcasting Co.*, 270 Minn. 525, 537, 134 N.W.2d 892, 900 (1965). *Accord, Royal Realty v. Levin, supra; Carnes v. St. Paul Union Stockyards Co., supra.* The Eighth Circuit has acknowledged that justification is a jury issue in Minnesota. *Smith v. American Guild of Variety Artists*, 349 F.2d 975 (8th Cir. 1965) *vacated and remanded for reconsideration on other grounds*, 384 U.S. 30, *original opinion re-adopted and re-affirmed in all respects*, 368 F.2d 511 (8th Cir. 1966), *cert. denied*, 387 U.S. 931 (1967); *American Surety Company v. Schottenbauer*, 257 F 2d 6 (8th Cir. 1958).

B. The Decision of the Court Below Removes the Question of Justification from Jury Consideration Contrary to Minnesota Law and Without Support in Principles of Preemption.

The court of appeals concluded that interference with the contract was justified by *Lear*. This is contrary to the approach taken by this Court in *Kewanee*, which, rather than merely invoking *Lear*, carefully evaluated federal patent law policy against the particular state tort law involved. Nor can it be assumed that whatever matters of federal patent policy the court of appeals relied on to preempt Span-Deck's contract claim would be equally applicable to the tort claim for interference. It is also a principle of Minnesota law that the issue of justification involves consideration of the defendant's good faith. *Wolfson v. Northern States Management Co.*, 210 Minn. 504, 299 N.W. 676 (1941). Even if *Lear* might, as a matter of legal principle, be available as a justification for a party inducing breach, the jury question of whether this claimed justification was the good faith motive of the defendant remains.

Use of the *Lear* case in the manner chosen by the court of appeals establishing a scope of preemption for federal patent law which has serious consequences for tort law in Minnesota and other states. Whether such a decision can be supported by principles of federal preemption is a question which merits consideration by this Court. This is particularly so because it affects parties' rights to have their cases determined by juries.

III.

The Court of Appeals' Violation of the Substantial Evidence Standard of Review of Factual Findings by a Jury, Which Standard is Mandated by the Seventh Amendment and the Efficient Administration of Justice, and Its Substitution of Its Own Independent Fact Findings on Several Critical Matters Call for Review by This Court.

The decision below rests on three key fact findings, findings made independently by the court of appeals in direct contradiction to the facts as determined by the jury and separately confirmed by the trial court, following eight weeks of trial. First, the court of appeals found the Mitchell patent invalid on grounds of obviousness. *(See* App. A, p. A-16). Without this finding, even under the Eighth's Circuit reasoning, the franchise contract would be enforced under principles of state contract law. Second, the court of appeals found that Rauenhorst was not liable for inducing Fabcon's breach of contract, because its conduct in encouraging Fabcon not to pay royalties was justified.[8] *(See* App. A, p. A-19). Third, the court of appeals found that the franchise contract was not renewed in accordance with its terms. (*See* App. A, pp. A-23-A-26).[9]

Each of these contradictions of jury-determined facts was the direct result of use by the court of appeals of an incorrect standard of review on appeal. These appellate errors are of serious magnitude both because they contravene constitutional principles and because they seriously affect the administration of justice and the perception thereof.

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[8] This finding is discussed in Section II, *supra*.

[9] The court of appeals overturned the jury's finding as to renewal of the franchise contract, reaching its own factual determination that the franchise terminated on October 6, 1975. Although the court of appeals excused this incursion into the jury's province by its conclusory denomination of the questions as matters of law, the trial court in fact acted properly in giving the jury the responsibility of finding whether a proper notice of termination had been given or whether Fabcon's actions inconsistent with the notice caused waiver of the right to prevent automatic renewal. *See U.S. for Use and Benefit of Smith v. Maryland Casualty Co.* 146 F.2d 379, 381 (5th Cir. 1946); *Kennedy v. Hasse*, 262 Minn. 155, 160-161, 114 N.W.2d 82 (1962); *Maloney v. Madrid Motor Corp.*, 385 Pa. 224, 122 A.2d 694 (1956). The jury considered whether the supposed notice was not really any notice of termination at all but rather one more move in the Fabcon/Rauenhorst strategy to refuse to pay Span-Deck any royalties while continuing to enjoy benefits made available only because they had entered into the franchise contract.

At trial there was evidence showing that the provisions of the franchise contract made Fabcon's purported notice of termination ineffective because the right to prevent automatic renewal was forfeited by Fabcon's default and because the parties intended that termination actually be accompanied by a wind-down in manufacturing and cessation of use of Span-Deck's proprietary rights pursuant to paragraph 4.4 of the contract. (*See* App. G, p. A-78). The trial court properly gave these questions to the jury. *Rankin v. Fidelity Trust Co.*, 189 U.S. 242 (1903); *Singer Co. v. E. I. duPont de Nemours & Co.*, 579 F.2d 433, 439-440 (8th Cir. 1978); 3 Corbin, *Contracts* § 554 (1960).

A. The Correct Standard of Review Is of Both Constitutional and Juridical Importance.

As this Court has long recognized, "[a]ppellate review in the federal courts is, of course, limited ultimately by the Seventh Amendment." *Lumbermen's Mutual Casualty Co. v. Elbert,* 348 U.S. 48, 53 n. 5 (1954), citing *Parsons v. Bedford, Breedlove & Robeson,* 28 U.S. (3 Pet.) 433 (1830).

> We might agree with the Court of Appeals had the question of fact been left to us. But neither we nor the Court of Appeals can redetermine facts found by the jury any more than the District Court can predetermine them. For the Seventh Amendment says that "no fact tried by a jury, shall be otherwise reexamined in any Court of the United States, than according to the rules of the common law."

Atlantic & Gulf Stevedores, Inc. v. Ellerman Lines, Ltd., 369 U.S. 355, 358-359 (1962).

The correct standard to be applied for appellate review of jury-determined facts is thus a matter of constitutional importance. It is also a matter important to the effective administration of justice. Standards of appellate review which, by their terms or in application, liberally allow reexamination of a jury's factual findings encourage appeals to be undertaken simply in the hope that another "fact finder" might see things differently. This contributes not only to crowded dockets in the courts of appeals - and ultimately this Court - but, to the extent such standards permit properly instructed jury verdicts to be overturned, the efficient use of scarce judicial resources is frustrated. In the instant case, for example, eight weeks of trial for the litigants, the court, and the jury were rendered superfluous by an appellate court which decided to engage in its own independent fact finding, and yet another extensive trial will follow the remand. Such results cannot but adversely affect the perceptions of litigants and the public at large of the fairness and effectiveness of the administration of justice.

Thus, for both constitutional and juridical reasons, where there is disagreement over the proper standard of review, or where an improper one has been applied, this Court should exercise its jurisdiction to articulate the appropriate standard for appellate courts to follow.

B. There Is Disagreement in the Circuits Over the Standard of Review of Jury Findings on the Issue of Obviousness.

In *Graham v. John Deere Co.*, 383 U.S. 1 (1966), this Court explained the nature of the determination of nonobviousness required under § 103:

> While the ultimate question of patent validity is one of law, . . . the § 103 condition, . . . lends itself to several basic factual inquiries. Under § 103, the scope and content of the prior art are to be determined; differences between the prior art and the claims at issue are to be ascertained; and the level of ordinary skill in the pertinent art resolved. Against this

> background, the obviousness or nonobviousness of the subject matter is determined.

Id. at 17.

The determination of nonobviousness thus involves both questions of fact and questions of law, and the answers to the fact questions become the predicates upon which the legal answers must be based. When fact questions are submitted to and answered by a properly instructed jury, the Seventh Amendment requires that the answers given not be reexamined, except in accordance wth the principles of the common law. The proper standard for appellate review of jury-determined facts is the "substantial evidence" test: If the reviewing court finds substantial evidence supporting the jury's determination, it must be accepted and not otherwise questioned or "reexamined." *See Atlantic & Gulf Stevedores, Inc. v. Ellerman Lines, Ltd., supra,* 369 U.S. at 364; *International Terminal Operating Co., Inc. v. N. V. Nederl. Amerik Stoomv. Maats.,* 393 U.S. 74, 75 (1968) (per curiam).

In the context of patent law, and with particular regard to the question of nonobviousness, several circuits have recognized that jury-determined facts must be upheld on appellate review if supported by substantial evidence. *See, e.g., Velo-Bind, Inc. v. Minn. Mining & Mfg. Co.,* 647 F.2d 965, 971 (9th Cir.), *cert. denied,* —— U.S. ——, 102 S.Ct. 658 (1981) ("Although the conclusion of validity is ultimately one of law, the jury's findings of fact, which underlie this legal conclusion may not be overturned on appeal if supported by substantial evidence."); *Norfin, Inc. v. International Business Mach. Corp.,* 625

F.2d 357 (10th Cir. 1980); *Control Components, Inc. v. Valtek, Inc.*, 609 F.2d 763 (5th Cir.), *cert. denied*, 449 U.S. 1022 (1980); *Tights, Inc. v. Acme-McCrary Corp.*, 541 F.2d 1047 (4th Cir.), *cert. denied*, 429 U.S. 980 (1976).[*] Other circuits, however, appear to have ignored the strictures of the Seventh Amendment; they hold that the reviewing court may make its own independent analysis of the underlying facts and thus reexamine the jury's determinations unrestricted by the substantiality of the evidence supporting them. *See, e.g., Dual Manufacturing & Engineering, Inc. v. Burris Industries, Inc.*, 619 F.2d 660 (7th Cir.) (en banc), *cert. denied*, 449 U.S. 870 (1980); *Layne-New York Co. v. Allied Asphalt Co.*, 501 F.2d 405 (3rd Cir. 1974), *cert denied*, 421 U.S. 914 (1975).

Involving as it does both a critical part of the statutory test of patent validity and the precepts of the Seventh Amendment, this disagreement in the circuit courts of appeals over the proper standard of review for jury-determined facts in patent cases requires resolution by this Court. As is evidenced by the citations above, the conflicting decisions are of recent vintage and are spread throughout the circuits.

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[*] The explication by the Fourth Circuit in *Tights, Inc. v. Acme-McCrary Corp., supra*, 541 F.2d at 1055-6 (citations omitted) was not followed by the Eighth Circuit in the instant case. It bears repeating here:

> We begin with the observation that the rules governing appellate review of patent cases are no different than in other types of civil litigation. . . . Thus, in determining whether the verdict in this case should have been directed, we must apply the same standard employed by the district court in passing on the original motion. . . . As such the question becomes whether there was sufficient evidence to support a verdict for the party opposing the motion. . . . In assessing the sufficiency of the evidence, however, our power of review continues to be limited by the Seventh Amendment, which provides that "no fact tried by a jury shall be otherwise reexamined in any Court of the United States, than according to the rules of the common law." . . . We may not, therefore, weigh the evidence, pass on the credibility of witnesses, or substitute our judgment of the facts for that of the jury. . . . Instead, we must view the evidence in light most favorable to the party against whom the motion is made, giving him the benefit of all reasonable inferences from the evidence.

This case squarely presents the Court with an opportunity to resolve that disagreement by articulating the proper standard of review. The majority in the court below, recognizing the conflict of standards, (App. A, p. A-8), paid lip service to the substantial evidence test but proceeded to apply its own independent analysis to the evidence to arrive at factual determinations supportive of its erroneous conclusion that the Mitchell patent was invalid for obviousness. For example, although the jury had specifically determined in a special verdict that the inventions claimed in the Mitchell patent were not described in any of the documents encompassing the relevant prior art, (App. C, p. A-62, Special Verdict No. 16), the court of appeals, without reviewing the substantiality of the evidence supporting this jury determination, independently made the factual determination that "some sort" of a description of a particular claim was "inherent" in some prior art.[9] The court elsewhere independently concluded, again opposite to the findings of the jury, that the collinear configuration was "only logical" from the prior art. (App. A, p. A-14). Similarly, against the jury's findings, the court independently decided that the Mitchell patent teachings regarding a specific means for accurately moving and controlling the casting bed along the track were sufficiently described by prior art so that a person skilled in the art could practice the Mitchell invention."[10] (App. A, pp. A-12-A-13. *Compare* App. C, p. A-62, Special Verdict Nos. 16, 18).

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[9] "The Mitchell system claims a curing area and an unloading-overrun area on opposite sides of the manufacturing area in a collinear relationship. The Mortimer patent specification discusses a curing area or part of the plant where the slabs may set adjacent to a manufacturing area, and some sort of unloading area is inherent in any product manufacturing process based on an assembly-line format such as that disclosed in the Mortimer patent." (App. A, p. A-10).

Nowhere in its analysis of the factual issues on which its conclusion of invalidity is based does the court of appeals delineate the evidence supportive of the jury's special verdict findings and evaluate its substantiality. Rather, the court comments on the evidence it finds supportive of its own conclusion and presents that as independently derived facts.

Thus, as Judge Woods observed in dissent, the court in fact utilized an independent analysis approach, even while pretending to apply the substantial evidence test as well. (App. A, pp. A-29-A-30).[11]

Inasmuch as the reexamination of jury-determined facts is involved, which standard of review is applied is of serious moment. What the Eighth Circuit itself has recognized with regard to the standard to be applied to factual determinations made by a *trial court* is, if anything, more true in the instant context of a *jury verdict:*

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[10] In doing so, the court below also stepped outside of the record. It relied on U.S. Patent No. 3,354,786, (*see* App. A, p. A-13), which was not in evidence and was never designated part of the prior art by defendants under the statutory requirement of 35 U.S.C. § 282. In addition, the court below ignored the requirement of 35 U.S.C. § 112, which provides that a "means plus function" element in a patent claim shall be construed to cover the corresponding structure or acts described in the specification and equivalents thereof. Pursuant to this rule, the court below should have considered whether the *particular structure* of the means for moving the casting bed as described in the Mitchell patent appeared in the prior art, but it wholly failed to do so.

[11] Nor does the concurring opinion of Judge Arnold rehabilitate the court's analytical standard. Although he states that he does not read the court's opinion as giving no weight to the jury verdict, (App. A, p. —), he does not volunteer how or where the evidence is lacking in substantiality, nor can he change the independent evaluation which in fact took place as revealed by the opinion which he joined. If the concurrence means to offer the court's analysis as in fact constituting a substantial evidence review, then it is plain that the majority has misapprehended the nature of the test in a serious way.

> "The entire responsibility for deciding doubtful fact questions in a nonjury case should be, and we think it is, that of the district court. The existence of any doubt as to whether the trial court or this Court is the ultimate trier of fact issues in nonjury cases is, we think, detrimental to the orderly administration of justice, impairs the confidence of litigants and the public in the decisions of the district courts, and multiplies the number of appeals in such cases."

Pendergrass v. New York Life Ins. Co., 181 F.2d 136, 138 (8th Cir. 1950) (Sanborn, J.).[11] As Judge Woods observed below in dissent, "once a proper demand for jury trial has been made and a jury trial is conducted, the appellate standards of review of a jury verdict should not be compromised because of the complexity of the issues presented." (App. A, p. A-30).

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[11] Ironically, the Eighth Circuit has recently recognized, as both Judges Arnold and Woods acknowledge, that the proper standard for reviewing a *trial judge's* findings in a patent case is *not* independent analysis but the "clearly erroneous" standard. *See Contico Intern. v. Rubbermaid Commercial Prod.*, 665 F.2d 820 (8th Cir. 1981). Cf. App. A at pp. A-28, A-29. If Federal Rule of Civil Procedure 52(a) requires the clearly erroneous standard for trial court-determined facts, surely the Seventh Amendment is entitled to at least as much deference.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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APPENDIX A

No. 81-1829

Span-Deck, Inc., a Tennessee corporation,
Appellee,
v.
Fab-Con, Incorporated, a Minnesota corporation; and Rauenhorst Corporation, a Minnesota corporation,
Appellants.

Appeal from the United States District Court
for the District of Minnesota.

Submitted. January 14, 1982

Filed: May 12, 1982

Before LAY, Chief Judge, ARNOLD, Circuit Judge, and WOODS,* District Judge.

LAY, Chief Judge.

Span-Deck, Inc. (Span-Deck) brought this action against Fabcon, Incorporated (Fabcon) and Rauenhorst Corporation (Rauenhorst) to recover royalties and to enjoin the use of equipment, trade secrets, know-how, and patent and trademark rights relating to a manufacturing process for prestressed precast concrete. Following a lengthy and involved jury trial, judgment was entered for Span-Deck upholding the validity of the patents in question and awarding $1,500,000 compensatory damages against Fabcon for breach of the franchise licensing agreement and $2,000,000 punitive damages against Rauenhorst for tortious inducement of breach of contract. The judgment was subsequently amended to hold Rauenhorst jointly and severally liable for the $1,500,000 compensatory damage award. Fabcon and Rauenhorst now appeal primarily on the grounds that the two patents involved are invalid as a matter of law, thereby justifying Fabcon's discontinuation of royalty payments under the *Lear, Inc. v. Adkins,* 395 U.S. 653 (1969), doctrine.

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*Henry Woods, United States District Judge, Eastern District of Akansas, sitting by designation.

Facts.

Span-Deck is a Tennessee corporation engaged in franchising the use of its equipment and process for the large-volume manufacture of prestressed, precase, hollow-core, structural concrete planks. Span-Deck acquired the "Kinnard patent," United States Patent No. 3,217,375, in 1965 for a casting apparatus and method for production of prestressed hollow-core plank in which a moving casting machine deposits liquid concrete around lightweight granular cores in slipforms on a fixed bed to surround tensioned steel cables. A second patent, the "Mitchell patent," United States Patent No. 3,523,343, was obtained by Span-Deck in August 1970 for a system which incorporated the Kinnard machine into a centralized, large-volume plank production system utilizing large, moving casting beds. Span-Deck licensed numerous operations in both the United States and foreign countries for the franchised use of its system of moving and controlling a large casting bed in coordination with casting and curing equipment. Rauenhorst, a large Minneapolis-based general construction company, entered into negotiations with Span-Deck in the summer of 1970 with the intention of entering the precast concrete business. Fabcon, a wholly-owned subsidiary of Rauenhorst formed specifically for the concrete plank manufacturing operation, entered into a franchise license agreement with Span-Deck in October 1970. In the agreement Span-Deck agreed: to supply casting equipment and standard detail drawings; to render "reasonable assistance . . . experience and knowledge, its know-how and trade secrets regarding the manufacture and use of" the Span-Deck products; to grant the exclusive right for five years to the Kinnard and Mitchell patents in a stated territory; and to grant the exclusive right to the "Span-Deck" and "Insulcore" trademarks for the duration of the contract. In return Fabcon agreed to pay $225,300 for the machinery and equipment, plus continuing royalties during the effective period of the franchise agreement. Finally, the agreement included options for Fabcon to extend the contract term an additional five years and to avoid royalties in the event a final judgment should be entered in a court of competent jurisdiction determining that Span-Deck's machine or processes are not protected by patents. The agreement contained the following post-termination requirements:

> 4.4 In the event of termination of this Agreement in any manner, LICENSEE shall have the right to complete any and all contracts which it may

> be obligated to fulfill, paying the royalties thereon but it shall not further use, either directly or indirectly, the trademarks or trade names, any trade secrets or valid, protected patented processes of LICENSOR, or use or employ any imitations of LICENSOR'S trade names, trademarks, or valid, protected patented processes, if acquired during the term of this Agreement; and these obligations shall continue after termination of this Agreement.

Fabcon commenced production under the franchise agreement in July 1971, and soon expanded its operation by doubling its casting bed capacity from August 1972 to February 1973. Meanwhile, Rauenhorst offered to purchase Span-Deck for over $2,000,000, and Fabcon attempted to hire one of Span-Deck's experienced engineers as its production manager; both efforts proved unsuccessful. In February 1973 Fabcon ceased making royalty payments, allegedly because it claimed entitlement to a credit under a "most-favored-licensee" provision. In April 1973, Rauenhorst asserted that Span-Deck's patents were either invalid or not infringed and unsuccessfully urged termination of the franchise agreement.

Span-Deck commenced this action against both Fabcon and Rauenhorst in November 1973. Count I of Span-Deck's complaint alleges breach of contract by Fabcon and seeks payment of royalties and injunctive relief. Count II alleges intentional inducement of breach by Rauenhorst and seeks compensatory and exemplary damages. Count III alleges unauthorized use of trade secrets and know-how and seeks compensatory and exemplary damages and injunctive relief. Counts IV and V allege trademark infringement and seek compensatory and exemplary damages and injunctive relief. Counts VI and VII allege patent infringement and seek compensatory and exemplary damages and injunctive relief.

Fabcon counterclaimed for a declaratory judgment that the franchise agreement was invalid or unenforceable due to failure of consideration and that the Kinnard and Mitchell patents were invalid, unenforceable and uninfringed.

Partial summary judgment was entered for the defendants on that portion of count III regarding alleged misappropriation of "know-how." The trademark infringement claims of counts IV and V were withdrawn prior to submission of the case to the jury.

The jury answered 22 special verdict questions, and returned a verdict of $1,500,000 in compensatory damages and $2,000,000 in punitive damages against Fabcon and Rauenhorst, respectively, on counts I and II, respectively. Judgement was entered on the verdict, no injunctive relief was granted, and the counterclaim was dismissed with prejudice. The judgment was later modified pursuant to Span-Deck's motion to reflect joint and several liability of Rauenhorst for the $1,500,000 compensatory damages award.

Fabcon and Rauenhorst now appeal, contending that the trial court erred in failing to direct the verdict for Rauenhorst on the tortious inducement claim because Rauenhorst's actions were justified. They contest the extent of compensatory damages. Appellants assert also that there was error in modification of the compensatory damages part of the judgment because the jury did not find Rauenhorst to be the "alter ego" of Fabcon. Finally, both Fabcon and Rauenhorst urge that the patents in question are invalid as a matter of law.

We vacate the judgment and reverse and remand for further proceedings.

I *Patent Validity.*

In *Lear, Inc. v. Adkins,* 395 U.S. 653 (1969), the Supreme Court held that a patent licensee is not estopped from challenging the validity of the patent and that he is entitled to avoid payment of all royalties accruing after the patent issued once either he or a third party proves the patent invalid. 395 U.S. at 668-74.

Fabcon and Rauenhorst urge that the Kinnard and Mitchell patents which lie at the core of the franchise license agreement are invalid as a matter of law, thus precluding compensatory damages for breach of contract under the *Lear* doctrine. Rauenhorst further asserts that Fabcon's discontinuation of royalty payments was justified under *Lear*; and therefore, Rauenhorst could not have tortiously induced Fabcon to breach as a matter of law.

A. *Kinnard Patent, No. 3,217,375.*

Appellants contend that the Kinnard patent is invalid pursuant to 35 U.S.C. § 102(b)[1] because the Kinnard invention was in public use or on sale more than one year prior to filing of the patent application.[2] The jury found as to all seven questioned claims of the patent that it had not been in public use for more than one year prior to its application.[3]

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[1] 35 U.S.C.S. § 102(b) provides:

> A person shall be entitled to a patent unless—
>
> ....
>
> (b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, ...

[2] The district court found that the rolling-bed casting equipment used by Fabcon does not infringe the Kinnard patent as a matter of law. Neither party appeals from this decision. Thus, on appeal, the issue of validity of the Kinnard patent is relevant to the breach of contract claims only, not to the patent infringement claims.

The jury's verdict fails to specify what the patent application filing date was or whether or not the invention was found to have ever been "on sale" within the meaning of the statute.[4] However, because there is substantial evidence as to both factual theories which might support the verdict, the verdict must be upheld, *see Baumler v. State Farm Mutual Automobile Insurance Co.*, 493 F.2d 130, 134 (9th Cir. 1974). Thus we find no invalidity regarding the Kinnard patent.

B. *Mitchell Patent No. 3,523,343.*

Fabcon and Rauenhorst contest the validity of the Mitchell patent on the grounds of, *inter alia*, lack of novelty due to anticipation by prior art, 35 U.S.C. § 102, and obviousness, 35 U.S.C. § 103. Because of our resolution of the obviousness issue we need not reach the anticipation issue.

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[3] A defendant relying upon the "public use or sale" defense of 35 U.S.C. § 102(b) must prove the defense by clear and convincing evidence. *CTS Corp. v. Piher International Corp.*, 593 F.2d 777, 779 (7th Cir.), *cert. denied*, 444 U.S. 884 (1979); *Amerio Contract Plate Freezers, Inc. v. Belt-Ice Corp.*, 316 F.2d 459, 462 n.7 (9th Cir.), *cert denied* 375 U.S. 902 (1963).

[4] One cannot determine from the verdict whether the Kinnard invention was found to have been "on sale," but within a year of the patent application filing date, or whether the alleged use was found to have been experimental, not public. The Kinnard patent was the result of three applications, the first of which was filed in August 1960. The alleged public use or sale occurred on May 11, 1961; the third and only successful Kinnard patent application was filed on July 6, 1962. The successful application claims to be a "continuation-in-part" application of earlier filed patent applications. Appellants urge that the earlier filing dates are applicable only to material disclosed in prior applications and carried forward and that the fixed bed casting process finally patented was not disclosed by the first two applications for a moving casting bed apparatus. *See Chisholm-Ryder Co. v. Lewis Mfg. Co.*, 398 F. Supp. 1287, 1289-91 (W.D. Pa. 1975), *ffd without opinion*, 547 F.2d 1159 (3d Cir.), *cert. denied*, 434 U.S. 825 (1977).

It is well settled that the question of obviousness is a question of law. *See, e.g., Ralston Purina Co. v. General Foods Corp.*, 442 F.2d 389, 391 (8th Cir. 1971). However, as has been often observed, the test for nonobviousness requires several underlying factual inquiries regarding: (1) scope and content of the prior art; (2) differences between the subject patent and the prior art; (3) the level of ordinary skill in the pertinent art at the time involved; and (4) certain secondary indicia of nonobviousness such as commercial success, long felt but unsolved needs, and failure of others. *Graham v. John Deere Co.*. 383 U.S. 1, 17 (1966); *University of Illinois Foundation v. Winegard Co.*, 402 F.2d 125, 127 (8th Cir. 1968), *cert. denied*, 394 U.S. 917 (1969); *National Connector Corp. v. Malco Manufacturing Co.*, 392 F.2d 766, 769 (8th Cir.), *cert. denied*, 393 U.S. 923 (1968). Because the question of nonobviousness involves both questions of law and fact, it is fundamental that the trial court must make the ultimate conclusion of law by applying the correct legal criteria to the factual determinations made by the jury. *See Swofford v. B & W, Inc.*, 395 F.2d 362, 367-68 (5th Cir.), *cert. denied*, 393 U.S. 935 (1968).

Some courts have held that jury findings on the disputed factual matters will be upheld by the reviewing court if substantial evidence exists to support them. *See, e.g., Control Components, Inc. v. Valtek, Inc.*, 609 F.2d 763, 767 (5th Cir.), *cert. denied*, 449 U.S. 1022 (1980). *Norfin Inc. v. International Business Machines Corp.*, 625 F.2d 357, 365 (10th Cir. 1980). Many decisions, noting that obviousness is a question of law, have engaged in an independent analysis of the underlying facts on review where the jury returned a general verdict regarding the issue of nonobviousness. *See, e.g., Dual Manufacturing & Engineering, Inc. v. Burris Industries, Inc.*, 619 F.2d 660, 663-67 (7th Cir.), *cert. denined*, 449 U.S. 870 (1980); *Pederson v. Stewart-Warner Corp.*, 536 F.2d 1179, 1180-83 (7th Cir.), *cert. denied.* 429 U.S. 985 (1976); *see also Control Components, Inc. v. Valtek, Inc.*, 609 F.2d 763, 775 (5th Cir.), *cert. denied*, 449 U.S. 1022 (1980) (Rubin, J., concurring in part and dissenting in part).[8]

Regardless of whether we apply the substantial evidence test or accept the jury's special verdict, but independently evaluate the legal question of nonobviousness as an ultimate issue of law, a careful review of the record dictates reversal as to the portion of the judgment upholding the validity of the Mitchell patent.

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[8] The Seventh Circuit described the inherent problems with instructing a jury as to the proper *Graham* criteria:

> When the issue is obviousness, a general verdict with or without answers to special interrogatories, will ordinarily serve no purpose, because the court will still have the responsibility of deciding obviousness. A general verdict, without more, will of course give rise to the presumption that material fact issues have been resolved in favor of the prevailing party; but specific findings are more likely to be useful than presumptions to a court exercising its obligation to decide the ultimate issue of obviousness.
>
> It must be recognized, of course, that at best special verdicts will help some; they will not make trial by jury an effective way of resolving the issue of obviousness. . . . . It is apparent, however, that the draftamen [of Rule 49a] recognized the lack of flexibility that is inevitable when the fact finder responsible for resolving complex and detailed fact issues cannot be expected to compose detailed findings. Nevertheless, the special verdict device may allow the jury, if one is utilized, to serve a useful function in resolving specific contested issues as to the concrete facts, and it should be used.

Dual Manufacturing & Engineering, Inc. v. Burris Industries Inc., 619 F.2d 660, 667 (7th Cir.) (en banc), *cert. denied*, 449 U.S. 870 (1980).

1. *Scope of the Prior Art.*

Evidence of several prior art patents was presented in the district court. Mortimer Patent, No. 1,891,626, issued in 1932, appears to be the most relevant prior art vis-a-vis the Mitchell patent.

Both Mitchell and Mortimer may be characterized as combination patents[6] for a system for the manufacture of precast planks or slabs.[7] Both patents contemplate four primary structural elements (1) a movable casting bed or mobile carriage with side forms equipped for pivotal movement at the horizontal axes from vertical or outwardly inclined positions for removal of the cured members; (2) a track running beneath a stationary casting apparatus or feed spout; (3) a means for moving the casting bed; and (4) a stationary casting means or feed spout. The Mitchell system claims a curing area and an unloading-overrun area on opposite sides of the manufacturing area in a collinear relationship. The Mortimer patent specification discusses a curing area or part of the plant where the slabs may set adjacent to a manufacturing area, and some sort of unloading area is inherent in any product manufacturing process based on an assembly-line format such as that disclosed in the Mortimer patent. *See In re Agger*, 249 F.2d 895, 897 (C.C.P.A. 1957); *Brand v. Thomas*,

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[6] *See Huntman Stabilizer Corp. v. General Motors Corp.*, 144 F.2d 963, 965 (3rd Cir.), *cert. denied*, 323 U.S. 782 (1944) (combination constituting invention is a union of elements, some of which may be old and others new, or all old, or all new, but result must be product of coacting influences of various elements and which is produced by their union and not mere aggregation of several results, each the complete product of one of the combined elements).

[7] The Mitchell patent covers a system for the production of precast concrete planks, while the Mortimer patent covers the casting of slabs of gypsum or "plastic material;" concrete is a plastic material and, thus, within the contemplation of the Mortimer patent.

96 F.2d 301, 303 (C.C.P.A. 1938) (doctrine of inherency)

Thus, Mortimer Patent No. 1,891,626 issued in 1932 taught the use of a casting system utilizing a moving casting bed on tracks with longitudinally extended sideforms having pivotal movement at the horizontal axes for ejection of cured materials and a stationary feed spout for pouring plastic material into the forms. In addition, the Kinnard Patent No. 3,217,375 filed in 1962 teaches the process for producing prestressed hollow-core concrete, and is explicitly incorporated into the Mitchell system. Brown Patent No. 2,970,361 issued in 1961 disclosed "a means of molding elongated panels and objects of concrete, or other self hardening material, with core openings extending their full length" and utilizing a moving mold mounted on a horizontal track propelled by motor-driven link chain. The first Kinnard application filed in 1960 discloses a "method and apparatus for continuously forming a hollow concrete member of plastic material" which includes a trough-like casting bed on a carriage frame with pivoting longitudinal side walls adapted to moving longitudinally by "any convenient means," such as a cable, to a stationary hopper frame and then to a curing area.

2. *Differences Between Subject Patent and Prior Art.*

The following primary differences between the Mitchell patent and the prior art are claimed by Span-Deck:

(a) The Mortimer, Brown, and Kinnard patents, as well as the Kinnard application of 1960, fail to disclose the use of two sets of reversible hydraulic motors at opposite sides of the manufacturing area driving rubber-tired wheels having frictional engagement with the stress frame of the casting bed;

(b) the prior art references fail to disclose the use of three areas (unloading, manufacturing, and curing) in the collinear relationship disclosed in the Mitchell patent; and

(c) the prior art references do not specify that the casting beds remain stationary in the curing area, as does the Mitchell patent.

Span-Deck also cites such secondary indicia of nonobviousness as the commercial success of the Mitchell patent.

3. *The Level of Ordinary Skill in the Pertinent Art at the Time Involved*

The primary difference between the Mitchell patent and the Mortimer patent is that the Mitchell patent in claim five provides for a pair of hydraulic motors and frictional engagement of driving wheels with the casting bed as the specific means for accurately moving and controlling the casting bed along the track. The Mortimer patent merely teaches use of a "mobile carriage" driven "either manually or by power" without specifying the means of movement.[4] One must note, however, that claims one, two, three, six, seven, ten, eleven and twelve through fifteen of the Mitchell patent refer only generally to a "means for moving said casting bed along said track." The Mitchell specifications also disclose use of flotation and a cable-type towing mechanism as an alternative means of movement. Nothing unique about the hydraulic motors themselves is claimed; only the use of such motors in conjunction with this particular operation is claimed to be novel and nonobvious. The particular hydraulic motor embodied by the Mitchell invention is a Mark IV Staffa hydraulic motor manufactured by Chamberlain Industries Limited of London, England, Patent No. 3,354.786. Application of a hydrualic drive to the mobile casting bed, while admittedly more accurate and efficient than prior mechanical means, appears to be no more than the work of a skilled mechanic combining two devices both known in prior art.[*]

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[4] *See generally Automatic Appliance Co. v. McNiece Motor Co.*, 20 F.2d 578, 580 (8th Cir. 1927) (elements of combination not claimed as invention were presumed old in art).

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[*] *See, e.g., General Elec. Co. v. United States*, 572 F.2d 745, 767-70 (Ct. Cl. 1978) (hydraulic transmission system to drive gun into positional correspondence with pilot device held to be obvious); *Globe Tool & Eng'r Co. v. Ram Tool Corp.*, 403 F.2d 457, 461-62 (7th Cir. 1968) (application of hydraulic drive to automatic armature winding machine found to be obvious); *L.B. Smith, Inc. v. Hughes*, 190 F. Supp. 787, 795-96 (E.D. Pa. 1961) *aff'd*, 296 F.2d 738 (3rd Cir.), *cert. denied*, 370 U.S. 953 (1962) (substitution of hydraulic means for mechanical means held to be obvious). Even as early as 1932 the Sixth Circuit so held in *Willett Mfg. Co. v. Root Spring Scraper Co.*, 55 F.2d 858, 859-60 (6th Cir. 1932), stating in language equally applicable to this case.

> The use of mechanical means for raising or lowering the blade of a road scraper is almost as old as the use of such scrapers. Invention may be exercised in devising a specific form of hydraulic means for accomplishing this end, just as in improving the mechanical means for doing so; but merely substituting hydraulic, pneumatic or electrical means for the former manually operated mechanical means, is but the substitution of one well-recognized source of power for another, and ordinarily is not broadly patentable. An exercise of the inventive faculty is not required to conceive, without more, that such substitution may be made. . .
>
> It is true that where the availability of the old device to use in the new environment is not obvious, either because of intrinsic differences in the quality of the operation to be performed, or because the relationship between the two arts or fields of use is remote, invention may be found in the mere concept of such availability to useful service in the new and different environment. . . but this principle is inapplicable here. The field of use is essentially the same whether the work performed be raising an elevator, a dump truck body, or a scraper blade. In this sense the relationship between the arts is not remote. Choice of one or another of the available types of power, apart from the specific means bv which such power unit is adapted to the new use, is well within the domain of selection open to the public. . . . The validity of the patent must

Span-Deck claims that the Mitchell patent discloses a nonobvious invention not included in the prior art by specifying collinear configuration of the unloading, manufacturing, and curing areas which creates greater efficiency. While none of the prior art references specifically teach a system with an unloading area on one side of the manufacturing area and a curing area on the opposite side, the Mortimer patent does refer to pushing the carriage "to a part of the plant where the material in the molds will be permitted to set until ready for removal," and the Brown patent discloses a curing area at the end of the track where a steel sheet is placed over the top surface of the poured concrete and "[t]he molded, cored object remains on pallet until cured sufficiently to handle." Furthermore, the Kinnard application of 1960 refers to removing the carriage frame "to a curing station until the concrete has set." Although none of the prior art references mention a specific unloading overrun area it is only logical that such an area must exist *at some point* on the assembly line. The particular collinear configuration taught by the Mitchell patent appears to be no more than an obvious rearrangement of parts to be considered by anyone experimenting in the field. It is well-settled that more than mere change of form or rearrangement of parts is necessary for patentability. *See, e.g., Stephenson v. Brooklyn Cross-Town Railroad,* 114 U.S. 149, 154 (1885); *National Connector Corp. v. Malco Manufacturing Co.,* 392 F.2d 766, 770 (8th Cir.), *cert. denied,* 393 U.S. 923

> then depend upon the existence of a true combination in the specific means disclosed; and an exercise of the inventive faculty is to be found, if at all, in the changes in the old device necessary to adapt it to the new use, and which therefore and thereby produce the new combination.

55 F.2d at 859.

(1968); *Ajax Mfg. Co. v. National Mach. Co.*, 93 F.2d 344, 346 (6th Cir. 1937); *DeBurgh v. Kindel Furniture Co.*, 125 F. Supp. 468, 476 (W.D. Mich. 1954), *aff'd*, 229 F.2d 740 (6th Cir.), *cert. denied*, 352 U.S. 823 (1956). The particular collinear configuration taught by the Mitchell patent appears to be no more than a logical and obvious step forward which accomplishes no new and unexpected result, but which is admittedly of economic importance. *See Shell Development Co. v. Pure Oil Co.*, 111 F. Supp. 197, 210 (D.D.C. 1953), *aff'd sub nom. Pure Oil Co. v. Socony-Vacuum Oil Co.*, 212 F.2d 454 (D.C. Cir. 1954).

Finally, the use of a stationary curing area is taught by the Mitchell patent, but is not explicitly specified in the prior art. Larry Foster, appellee's own witness, admitted, however, that such a curing technique, while not inherent in the process, is an accepted practice in the concrete industry.

Based on the legal criteria previously discussed, we hold as a matter of law that the experimental skill needed to combine these features would require no greater degree of ingenuity or skill than that possessed by an ordinary mechanic skilled in the art of manufacturing precast plastic materials.[16] We hold that the discernible differences between the Mitchell patent and the prior art are obvious improvements and combinations of existing machines, processes, and systems. *Cf. University of Illinois Foundation v. Wine-*

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[16] Substantial evidence of the commercial success of the Mitchell patent was adduced at trial. While such evidence is relevant to the question of unobviousness, in this case it appears to prove only the existence of a good machine, not a good patent. *See Cook Eng'r & Elec., Inc. v. Hickory Foundry & Mach. Co.*, 231 F. Supp. 271, 274 (W.D. N.C. 1964), *aff'd*, 340 F.2d 235 (4th Cir. 1965). *See also American Infra-Red Radiant Co. v. Lambert Indus., Inc.*, 360 F.2d 977, 990 (8th Cir.), *cert. denied*, 385 U.S. 920 (1966).

gard Co., 402 F.2d 125, 127 (8th Cir. 1968), *cert. denied*, 394 U.S. 917 (1969).

In sum, notwithstanding the commercial success enjoyed by Span-Deck, the Mitchell "system" appears to be at most an obvious technological advance not amounting to a patentable invention. As this court previously stated:

> The change in the form of any element of a prior patent must result in more than a useful natural phenomenon which man has accumulated through common knowledge. Thus, even though the use of a new device greatly improves the field and provides great utility, and commercial success is enjoyed because of the long-felt need, these features cannot sustain patentability where involved is only an extended application of obvious attributes from the prior art. Cf. Frederick Stearns & Co. v. Grove's Laboratories, Inc., 87 F.2d 822, 824 (8th Cir. 1937).

National Connector Corp. v. Malco Manufacturing Co., 392 F.2d 766, 771 (8th Cir.). *cert. denied* 393 U.S. 923 (1968).

II. *Tortious Inducement.*

Rauenhorst contests the jury's findings of tortious inducement of Fabcon to breach the contract on the grounds, first, that any inducement was justified as a matter of law under *Lear, Inc. v. Adkins.* Alternatively, it is argued that the district court failed to properly instruct the jury as to the elements of tortious inducement.

In *Snowden v. Sorenson*, 246 Minn. 526, 75 N.W.2d 795 (1956), the Minnesota Supreme Court set forth the following elements essential for recovery of damages for inducing breach of contract: "(1) the contract; (2) the wrongdoer's knowledge thereof; (3) his intentional procurement of its breach; (4) without justification; and (5) damages resulting therefrom. Royal Realty Co. v. Levin, 244 Minn. 288, 292, 69 N.W.2d 667, 671; Sorenson v. Chevrolet Motor Co., 171 Minn. 260, 214 N.W. 754, 84 A.L.R. 35." 75 N.W.2d at 799.

In *Lear, Inc. v. Adkins,* 395 U.S. 653 (1969), the Supreme Court held that (1) a patent licensee is not estopped from challenging patent validity, *id.* at 671; and (2) overriding federal patent policy allows a licensee to discontinue royalty payments while challenging patent validity, *id.* at 673-74. Rauenhorst asserts that *Lear* establishes Fabcon's right to refuse to pay royalties, the alleged breach in this case. and that because Fabcon was "justified" in its actions, its sole owner Rauenhorst was neither unreasonable nor unjustified in urging it to so act.[11]

The question presented is what action is justified under *Lear.* In *Lear* a licensing agreement was entered into before any patent was issued. The terms of the agreement required that royalties be paid until such time as the patent was held invalid. The licensee ceased payment of royalties while the licensor was still applying for the patent and notified the licensor of its belief that the patent sought was invalid. Upon receiving the patent licensor brought a breach of contract action, and the licensee asserted the defense of patent invalidity. Notwithstanding the contract provision requiring the payment of royalties until a determination of patent invalidity, the Supreme Court held that the licensee could challenge a patent's validity and be "freed from liability at least from the time he refuses to pay the contractual royalties." 395 U.S. at 674. Therefore, "*Lear* permits an accused infringer to accept a license, pay royalties for a time, and cease paying when financially able to litigate validity, secure in the knowledge that invalidity may be urged when the patentee-licensor sues for unpaid royalties." *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 346 (1971).

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[11] Span-Deck attempts to refute this argument by stating that justification is an affirmative defense, as opposed to an element of the tort, *see Johnson v. Radde,* 293 Minn. 409, 196 N.W.2d 478, 480 (1972), and that Rauenhorst not only failed to plead it in its answer or counterclaim, but it also denied any inducement at trial. Span-Deck contends therefore, that Rauenhorst is barred from raising the justification issue.

In *Royal Realty Co. v. Levin,* 244 Minn. 288, 69 N.W.2d 667 (1955), the Minnesota Supreme Court took a position regarding justification somewhat reconciling its divergent approaches in *Snowden* and *Johnson;* lack of justification must be plead by the plaintiff in a tortious interference action, but the burden of proving justification is on the defendant. 69 N.W.2d at 673. Because appellant's answer and counterclaim plead patent invalidity, thereby implicitly pleading justification, and because appellants offered proof of invalidity at trial, we deem the issue of justification is not barred on appeal.

Several courts have discussed the questions of whether mere cessation of royalties will suffice under *Lear* and what comprises a challenge to validity. Although a challenge does not necessarily require that the licensee initiate the adjudication regarding patent validity, *see Lear; Blonder-Tongue; Troxel Manufacturing Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253, 1260 (6th Cir. 1972); *cert. denied*, 416 U.S. 939 (1974); it is at least apparent that the reason for cessation of royalties must be patent invalidity. *See PPG Industries, Inc. v. Westwood Chemical, Inc.*, 530 F. 2d 700, 706-07 (6th Cir.), *cert. denied*, 429 U.S. 824 (1976). However, because the policy behind the *Lear* decision was the public interest in early adjudication of patent invalidity, *see PPG*, 530 F.2d at 705, two circuits have held that more than mere nonpayment of royalties is required; the licensee must take the additional affirmative step of *notifying* the patentee-licensor of invalidity. *PPG; American Sterilizer Co. v. Sybron Corp.*, 614 F.2d 890, 897-98 (3d. Cir.), *cert. denied,* 449 U.S. 825 (1980).

Fabcon ceased payment of royalties in February 1973. In March 1973 Fabcon's president proffered the reason of entitlement to a credit under a "most-favored-licensee" clause, but in April 1973 Gerald Rauenhorst asserted on behalf of Fabcon the claim of patent invalidity. It appears, therefore, that Fabcon's actions were authorized under *Lear* at least as of the time of Rauenhorst's involvement in April 1973 and that any urging by Rauenhorst to do that which Fabcon was legally entitled to do was justifiable under the circumstances. Because Rauenhorst established justification or "the presence of exceptional circumstances which show that no tort was in fact committed and lawful excuse which excludes actual and legal malice," *Johnson v. Radde,* 293 Minn. 409, 196 N.W.2d 478, 480 (1972), the district court should either have directed a verdict for Rauenhorst on the tortious inducement claim or entered a judgment notwithstanding the verdict.

Because it appears that a verdict should have been directed for Rauenhorst, the issue of jury instructions need not be reached. In addition, the issues involving Rauenhorst's liability for compensatory and punitive damages need not be resolved.

III. *Hybrid Royalty.*

Span-Deck disputes the applicability of *Lear* in this case because the franchise contract is not a naked patent license; the consideration for the royalties was found to be not only patent rights, but also nonpatent consideration such as trade secrets. Because of the hybrid nature of the royalty, Span-Deck asserts that the *Lear* doctrine of patent law overriding the law of contracts is inapplicable and that *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), is more closely analogous.

In *Aronson*, the licensee agreed to pay a royalty of five per cent of the selling price of a product manufactured according to a specific design. The agreement provided that if a patent on the design was not allowed within five years, the royalty would be reduced to two and one-half per cent. The patent was not allowed within five years and was ultimately rejected. The licensee subsequently sought a declaratory judgment that the royalty agreement was unenforceable on the grounds that federal patent law pre-empted state contract law. The Supreme Court held that federal patent law did not pre-empt state contract law so as to preclude enforcement of the contract because nothing in the state contract law stood "as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress" in federal patent law. 440 U.S. at 262. The Court found that the patent monopoly rights were not used as leverage to negotiate the reduced royalty since the reduced royalty rested on the contingency that no patent would issue within five years. 440 U.S. at 264-65. *See Brulotte v. Thys Co.*, 379 U.S. 29, 33 (1964) Monopoly granted under a patent cannot lawfully be used to negotiate nonpatent royalties with the leverage of that monopoly). The Court also found that the agreement did not fall within the *Lear* rationale of encouraging the early adjudication of patent validity to further the strong federal policy of insuring that only inventions which meet the rigorous requirements of patentability are withdrawn from the public domain because, in *Aronson*, no patent ever issued and no ideas were withdrawn from public use. 440 U.S. at 264.

Lear appears to be more closely applicable to this case than *Aronson*. First, patents were issued in this case, thereby removing certain ideas from the public domain. Second, the patents necessarily were used as leverage to negotiate the hybrid royalty in this case, unlike the reduced royalty in *Aronson*. Finally, the terms of the contract itself make the *Lear* rationale more applicable. Paragraph 4.1 provides:

> In the franchise area. LICENSEE will cooperate with LICENSOR at the sole cost and expense of LICENSOR in taking such legal action as might be reasonably necessary to protect said trademarks, LICENSOR'S processes, and the patents thereon. In the event a final judgment should be entered in a Court of competent jurisdiction determining (a) That the right to the use of the name SPAN-DECK is not exclusively vested in LICENSOR and its LICENSEE, for the manufacture of such product in the territory covered by this agreement, or (b) That LICENSOR'S machine and/or processes are not protected by LICENSOR'S patents, with the effect that persons not licensed by LICENSOR may utilize same without liability for infringement, or with the effect that use of same is deemed an infringement of patents owned by persons other than LICENSOR, then LICENSEE may, at its option, terminate this license agreement by giving 60 days notice by registered mail, whereupon both parties will be released from all obliga-

> tions under this agreement except that LICENSEE shall not be released from its Agreement to pay royalties already due or any other accrued obligation, nor from any other agreement herein contained which is stated to be binding subsequent to termination of this contract.

Thus, the *entire* royalty is avoidable under the contract in the event that the patents are invalid; no allocation of the percentage of royalties attributable to trade secrets and know-how is provided. The contract language indicates the primary importance of the patent rights in determining consideration.

The Ninth Circuit encountered a similar situation in *St. Regis Paper Co. v. Royal Industries*, 552 F.2d 309 (9th Cir.), *cert. denied*, 434 U.S. 996 (1977). In that case, the court found the underlying patent invalid and held unenforceable a royalty agreement which failed to distinguish between patent rights and know-how rights. The court stated:

> When, as here the patent rights and the know-how are so intimately intertwined, we believe that the same rule which makes royalties for patent rights uncollectible if the patent is invalid should apply with equal force to know-how. This does not mean Royal will be deprived of compensation for know-how; it merely means Royal is not entitled to royalties under the license agreement, which did not distinguish between royalties for patent rights and royalties for know-how.
>
> . . . .

> We hold that section 12(b) (1) is unenforceable for both the patent rights and the know-how. Nevertheless, we believe that Royal is entitled to compensation for its know-how. 552 F.2d at 315."[11]

The court continued with a discussion of damages and the reasonable value of the know-how, premised ostensibly on grounds of unjust enrichment. *See Dusenka v. Dusenka,* 221 Minn. 234, 21 N.W.2d 528, 530-31 (1946).

IV. *Letter of Termination.*

Paragraph 4.3 of the franchise/license contract entered into on October 7, 1970, contains the following provision:

> This Agreement may be renewed at the option of the LICENSEE for an additional period of five (5) years, and thereafter for additional periods of five (5) years, provided that LICENSEE shall not be in default under any provisions of this Agreement. Renewal shall be automatically effected unless LICENSEE gives written notice of its intention not to renew to LICENSOR, at least six (6) months prior to the expiration of the original term of this Agreement or any renewal term.

Defendants alleged at trial that on April 2, 1975, Fabcon gave an unambiguous written notice of nonrenewal by way of letter to Span-Deck, thus terminating the agreement as of October 6, 1975.[13] They argued, therefore, that if they are liable for compensatory damages, such damages should be limited to those incurred from the time of the alleged breach until the contract's alleged termination in October 1975.

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[11] "If the "hybrid" royalty were held enforceable, any licensor could undermine *Lear* by simply combining patent rights with other consideration in a royalty agreement and by providing no differentiation between the two considerations. If held enforceable despite patent validity, such an agreement would prevent the "unmuzzling" of royalties to aid the licensee in the expense of challenging patent validity, which achieves a result directly contradictory to that sought in *Lear*.

The district court submitted the issue to the jury and the jury found that renewal occurred as of October 1975 in accordance with the franchise contract's terms, assessing compensatory damages of $1,500,000. The district court justified submission of the issue to the jury on the grounds that the question involved resolution of certain factual issues upon which the evidence was in dispute including whether Fabcon's notice of nonrenewal was unambiguous.

Fabcon contends that the nonrenewal notification letter is unambiguous on its face and that the district court im-

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[13] On April 2, 1975, Fabcon's attorney wrote the following to Span-Deck:

> Re: LICENSE AGREEMENT dated 7 October, 1970, between Span-Deck, Inc. and Fabcon, Incorporated
>
> The above identified Agreement has been terminated by the actions of the parties thereto.
>
> However, in view of the contention made by Span-Deck, Inc. in the present litigation between the parties that the Agreement is not terminated, and to avoid any claim by Span-Deck, Inc. that the original term of the Agreement has been automatically extended for an additional five-year term, our firm has been authorized by Fabcon, Incorporated to give formal notice under Paragraph 4.3 of the Agreement, that Fabcon, Incorporated does not intend to renew the Agreement on expiration of the original term thereof on 6 October, 1975.

Additional evidence of the 1975 termination date was appellee's own admission found in a supplemental answer to Fabcon's Interrogatory No. 1 which states in pertinent part:

> The following parties who were licensees at the time of plaintiff's original answer are no longer licensees:

Licensee	Date of Agreement	Date of Termination
Fabcon, Inc. 700 W. Highway 13 Savage, Minnesota 55378	10/7/70	10/7/75

properly found that Fabcon's subsequent actions created ambiguity. Because Fabcon ceased making royalty payments and ultimately terminated the contract based on its assertions of patent invalidity, Fabcon argues that its continued production was not inconsistent with the post-termination requirements of paragraph 4.4, but, in fact, was consistent with its notice of nonrenewal. Thus damages should have been cut off as of October 6, 1975.

Span-Deck urges that Fabcon's failure to comply with paragraph 4.4 is evidence of its intent to renew the agreement, creating an ambiguity, and thereby justifying submission of the issue to the jury. Span-Deck further contends that Fabcon's "default" precluded its exercise of the right of nonrenewal. Finally Span-Deck contends that, even if Fabcon effectuated a timely notice of nonrenewal, the jury's damages should be allowed to stand as damages for Fabcon's illegal use of trade secrets and for patent infringement occurring after the October 1975 termination date.

We find the notice of nonrenewal clear and unambiguous. Span-Deck's admission of the October 1975 termination is further evidence of the parties' understanding regarding renewal of the agreement. In light of this and Fabcon's reasons for ceasing payment of royalties and not renewing the franchise agreement, the continued use of "patented processes" does not appear to be inconsistent conduct creating an ambiguity. The district court's determination of whether an ambiguity exists in a written document is a question of law, *see Republic National Life Insurance Co. v. Lorraine Realty Corp.*, 279 N.W.2d 349, 354 (Minn. 1979), and is thus subject to review by this court. The intent of the parties may be gained entirely from the writings in this case; therefore, the construction and effect of the written contract and notice letter were questions of law to be resolved by the court, not by the jury. *See Turner v. Alpha Phi Sorority House*, 276 N.W. 2d 63, 66 (Minn. 1979); *Leslie v. Minneapolis Teachers Retirement Fund Ass'n*, 218 Minn. 369, 16 N.W.2d 313, 315 (1944).

As to Span-Deck's contention regarding the effect of default on Fabcon's right to exercise the nonrenewal option, it appears that the district court properly concluded under paragraph 4.3 of the agreement that Fabcon's right to renew was contingent on absence of default, but the right of nonrenewal was not so qualified. The alleged breach had no effect on Fabcon's timely notification of intent to nonrenew.

Conclusion.

In light of our finding regarding the invalidity of the Mitchell patent and the date of termination of the contract, it is apparent that the trial court erred in allowing the jury to assess compensatory damages based on unpaid royalties for the period after October 7, 1975. Span-Deck's contention that the damages included for that time period should be allowed to stand because such a computation is a fair method of computing damages for unauthorized use of trade secrets is not convincing. Although the jury found that Fabcon continued to use Span-Deck's trade secrets acquired as a result of a confidential relationship with Span-Deck, and although a "reasonable royalty" is *one* fair method of computing damages in such a case, *cf. University Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 539-40 (5th Cir. 1974) ("reasonable royalty standard" one measure of damages for misappropriation of trade secrets), it does not follow that the jury would have necessarily computed the same damages had it treated the contract as terminated as of October 1975. In sum, a remand for determination of compensatory damages based on the value of nonpatent consideration received by Fabcon during the period from cessation of royalties until the October 1975 contract termination and damages for the misappropriation of trade secrets after contract termination is in order.

Because the withholding of royalties when challenging patent validity is authorized under *Lear*, thereby justifying any encouragement by a parent corporation to a wholly-owned subsidiary to so act, the judgment against Rauenhorst is reversed. Because the jury found the Kinnard patent uninfringed, and because the Mitchell patent is invalid due to obviousness, the judgment against Fabcon for breach of contract is reversed; however, because the jury found that Fabcon received nonpatent consideration, the cause is remanded for a determination of the value of nonpatent rights received by Fabcon from the time Fabcon ceased payment of royalties until termination of the contract on October 6, 1975. In addition, a determination of damages for misappropriation of trade secrets after the contract termination is ordered.

The judgment is vacated and the cause is reversed and remanded for further proceedings in accord with this opinion.

ARNOLD, Circuit Judge, concurring.

I concur in the Court's opinion but add a few words to make clear where I stand on the question of this Court's reviewing function in patent cases. I agree completely with

Judge Woods that the findings of the District Court to which a patent case is tried without a jury must be reviewed here in accordance with the clearly erroneous standard. As the author of the Court's opinion in *Contico Int'l, Inc. v. Rubbermaid Commercial Prods., Inc.,* 665 F.2d 820, 823 (8th Cir. 1981), cited by Judge Woods, *post,* p. 27, I could do no less. I also agree that if a patent case is tried to a jury the verdict should be reviewed on appeal with the same deference that is given a jury verdict in any other kind of case.

I do not read the Court's opinion in this case as giving no weight or consideration to the jury verdict below. I read it, rather, as holding that the Mitchell patent is so clearly invalid that no jury question was made out. On that basis, I concur in the opinion of the Court and in its judgment.

WOODS, District Judge, concurring in part and dissenting in part.

I concur in Part IV of the majority opinion which addresses the issues presented by the letter of termination. In all other respects, I dissent.

Contrary to the underlying factual findings made by both the jury and District Court and the conclusions of law made by the District Court, the majority opinion concludes that the Mitchell patent is invalid. Applying the doctrine espoused in *Lear v. Adkins,* 395 U.S. 653 (1966), the majority opinion proceeds to vacate the judgment entered in favor of the plaintiff and remand the case to the District Court for a determination of the value of nonpatent rights from the date Fabcon ceased payment of royalties to the termination date of October 6, 1975.

Additionally, the District Court is directed to determine damages for misappropriation of trade secrets after contract termination.

While I acknowledge that it is well settled that the ultimate question of obviousness is a question of law (Maj. Op. at 7), it is equally well settled that this determination is one which "lends itself to several basic factual inquiries." *Graham v. John Deere Co.*, 383 U.S. 1 (1966); *Clark Equipment Co. v. Keller*, 570 F.2d 778, 789 (8th Cir. 1978). These factual inquiries, of course, are resolved either by the District Judge or a jury. The scope of review to be applied to the determination of obviousness at the trial level and the weight which should be given to the jury verdict or the District Court's findings on these issues have given this Circuit great difficulty. *Flour City Architectural Metals v. Alpana Aluminum Products, Inc.*, 454 F.2d 58 (8th Cir. 1972); and *Clark Equipment Co. v. Keller, supra.* In *Contico Intern v. Rubbermaid Commercial Products*, 665 F.2d 820 (8th Cir. 1981), the clearly erroneous standard was applied in reviewing the trial judge's findings. Consistency with this decision dictates that a jury verdict on these same issues be tested by the substantial evidence test. However, the majority opinion acknowledges two different approaches to the obviousness vel non issue—substantial evidence test of a jury verdict and an independent analysis of the underlying facts by the appellate court—and states that the result would be the same in the instant case under either approach. The majority then focuses on an independent analysis of the evidence and arrives at the conclusion that the Mitchell patent must be invalidated. In reaching this conclusion, no weight was given to the special jury verdicts which dealt with the obviousness issue. Further, no consideration was given to the District Court's independent evaluation of the evidence and conclusion that the Mitchell patent was valid. (Designated Record p. 147).

In *E.I. DuPont de Nemours v. Berkley & Co., Inc.*, 620 F.2d 1247, 1264 (8th Cir. 1980), this Circuit, in an opinion written by the Honorable Howard T. Markey, Chief Judge, United States Court of Customs and Patent Appeals, sitting by designation, emphasized that "[t]he parties are entitled to a consideration in the first instance of all the facts touching the obviousness issue, by a factfinder who sees and hears the witnesses. . . ." Surely, given this emphasis, the parties are entitled to have this factfinder's consideration accorded some weight.

The majority's concern with the difficulty of submitting the complex issue of obviousness to a jury has some logical appeal (Maj. Op. 8). But, once a proper demand for jury trial has been made and a jury trial is conducted, the appellate standards of review of a jury verdict should not be compromised because of the complexity of the issues presented.

The majority also relies on *Lear v. Adkins, supra,* to hold that any alleged tortious inducement was justified as a matter of law. Given the majority's opinion on the patent validity issue, the argument that Rauenhorst was justified in inducing Fabcon to cease royalty payments has some force. But, in Minnesota, justification is peculiarly a fact issue to be determined by the jury. *Bennett v. Storz Broadcasting Co.*, 270 Minn. 525, 134 N.W.2d 892 (1965); *Johnson v. Radde*, 293 Minn. 409, 196 N.W.2d 478 (1972). If the jury not properly instructed on the *Lear v. Adkins, supra,* justification issue, the proper procedure would be to remand the case for a redetermination by the jury.

A true copy.

Attest:

CLERK, U.S. COURT OF APPEALS,
EIGHTH CIRCUIT.

APPENDIX B

Unitetd States District Court
District of Minnesota
Fourth Division

Span-Deck, Inc., a Tennessee Corporation,
Plaintiff,
vs.
Fabcon, Incorporated, a Minnesota corporation, and Rauenhorst Corporation, a Minnesota corporation,
Defendants.

Memorandum and Order

Civil 4-73-535

This matter comes before the Court on the motion of plaintiff to alter or amend the judgment and the motion of defendants for judgment notwithstanding the jury verdict or, in the alternative, for a new trial. John M. Mason and Stuart R. Hemphill, Dorsey, Windhorst, Hannaford, Whitney & Halladay, Minneapolis, Minnesota, appeared for plaintiff. John D. French and Lawrence C. Brown, Faegre & Benson, Minneapolis, Minnesota, and Robert O. Vidas, Schroeder, Siegfried, Ryan, Vidas, Steffey & Arrett, P.A., Minneapolis, Minnesota, appeared for defendants; Charles E. Steffey, on brief.

I. MOTION TO AMEND OR ALTER JUDGMENT

Plaintiff moves for amendment of the judgment entered by the Clerk of Court on March 11, 1981, pursuant to this Court's Order Nunc Pro Tunc, dated March 10, 1981. That judgment in favor of plaintiff was against Fabcon, Incorporated in the amount of $1,500,000 and against Rauenhorst Corporation in the amount of $2,000,000. The Court also ordered dismissal with prejudice of the Counterclaim. Plaintiff seeks to have the judgment amended by substituting the following language for the first paragraph of the judgment, which assessed liability for the breach of contract damages solely against Fabcon Incorporated:

> IT IS ORDERED THAT the Clerk of Court enter judgment in favor of the plaintiff and against defendants Fabcon, Incorporated and Rauenhorst Corporation, jointly and severally, in the amount of One Million Five Hundred Thousand Dollars ($1,500,000). 000).

This motion is made pursuant to Fed. R. Civ. P. 59(e), which provides that amendment of a judgment may be ordered when "the original judgment has failed to give relief on a claim on which it has been found that the party is entitled to relief." 11 C. Wright & A. Miller, *Federal Practice and Procedure* §2817, at 111 (citing *Hicks v. Town of Hudson*, 390 F.2d 84, 87-88 (10th Cir. 1967)). Plaintiff contends it is entitled to relief additional to that previously granted. The Court agrees.

In Count II of its Complaint, plaintiff states a claim against Rauenhorst Corporation for intentional inducement of, or interference with, the Franchise Contract between it and Fabcon, Incorporated. Plaintiff further alleges that it has suffered damages as a result of the intentional inducement by Rauenhorst Corporation of the breach of contract by Fabcon, Incorporated. Under Count II, plaintiff prays for recovery of those damages, as well as exemplary damages.

The Court stated, in instructing the jury on the damages to be awarded under Count II:

> In considering the issue of plaintiff's compensatory damages—as to its claim now—you are instructed that you should assess the amount you find to be justified by a preponderance of the evidence as full, just and reasonable compensation for all of the plaintiff's damages, no more and no less. Damages must not be based on speculation, because it is only actual damages, what the law calls compensatory damages that are recoverable.
>
> Should, however, you find that Rauenhorst intentionally caused Fabcon to breach the Franchise Contract, compensatory damages would be the same as for breach of contract as I have already instructed you. If you find by clear and convincing evidence that Rauenhorst acted purposefully against, or with willful indifference to the rights of Span-Deck, then you may also award punitive damages to Span-Deck.

Plaintiff contends that under this instruction it is entitled to a judgment that Rauenhorst Corporation is jointly and severally liable for the compensatory damages awarded by the jury under Count I upon its finding that Rauenhorst Corporation intentionally caused Fabcon, Incorporated to breach the franchise contract. Defendants object to such an amendment on two grounds: The jury charge was wrong; and, the jury charge, whether wrong or right, could not and did not present to the jury any issue to be resolved as to the liability of Rauenhorst Corporation to Span-Deck, Inc. for compensatory damages. These arguments are without merit.

The damages for which Rauenhorst Corporation is liable for its wrongful acts are those damages that are the natural and proximate consequence of its acts. *Johnson v. Gustafson*, 201 Minn. 629, 634-35, 277 N.W. 252, 255 (1938); *Swaney v. Grawley*, 133 Minn. 57, 60, 157 N.W. 910, 911 (1916). The damages that resulted as a natural and proximate consequence of the interference by Rauenhorst Corporation with plaintiff's contract rights are the same as those that resulted from the breach by Fabcon, Incorporated. The law of Minnesota on this point is stated in *Swaney*, as follows:

> The general rule, applicable alike to actions in tort and for a breach of contract, limits the injured party to such damages as are the natural and proximate consequence of the wrongful act of the defendant. *North v. Johnson*, 58 Minn. 242, 59 N.W. 1012. The injury must be the immediate and not merely the remote consequence of the wrong, whether a breach of contract or wilful tort. 13 Cyc. 25. In the case at bar, one in tort, the injury suffered by plaintiffs in consequence of the wrongful act of defendant in causing Dowdall to break his contract with them, was the loss of the benefits secured by the contract, and they are entitled to recover such damages, and such damages only, as resulted naturally and proximately from that loss. In such an action it has been held, and the ruling seems sound in principle, that *the injured party is limited, as a general rule, to such damages as might have been recovered for a breach of the contract itself*.

Swaney, 133 Minn. at 60, 157 N.W. at 911 (emphasis added). The instruction given by the Court is grounded firmly in Minnesota law.

Defendants argue, however, that the instruction is wrong because it does not comport with section 774A of the *Restatement (Second) of Torts* (1979). Section 774A sets forth the damages recoverable for interference with a contract and provides that:

> (1) One who is liable to another for interference with a contract or prospective contractual relation is liable for damages for
>
> (a) the pecuniary loss of the benefits of the contract or the prospective relation;
>
> (b) consequential losses for which the interference is a legal cause; and
>
> (c) emotional distress or actual harm to reputation, if they are reasonably to be expected to result from the interference.
>
> (2) In an action for interference with a contract by inducing or causing a third person to break the contract with the other, the fact that the third person is liable for the breach does not affect the amount of damages awardable against the actor; but any damages in fact paid by the third person will reduce the damages actually recoverable on the judgment.

Restatement (Second) of Torts §774A (1979). As explained in Comment d, the drafters of this section viewed the action for interference with contract as one in tort, thus damages are not based on contract rules. Accordingly, it is not required that the loss incurred be one within the contemplation of the parties to the contract at the time it was made. *Id.* at Comment d.

While there may be a conflict between the Restatement and Minnesota law, the result is immaterial. Defendants fail to cite any authority indicating adoption by the Minnesota Supreme Court of the Restatement position or any overruling of prior case law. A review of the federal and state court cases indicates clear support for the Minnesota law as set forth in the instructions. *Western Oil & Fuel Co. v. Kemp,* 245 F.2d 633, 643-54 (8th Cir. 1957); *Wilson & Co. v. United Packinghouse Workers of America,* 181 F. Supp. 809, 821-22 (N.D. Iowa 1960). *Johnson,* 201 Minn. at 634-35, 277 N.W. at 255; *Swaney,* 133 Minn. at 60, 157 N.W. at 911. *See generally* Comment, *Damages Recoverable in an Action for Inducing Breach of Contract,* 30 Col. L. Rev. 232, 232-33 (1930). 5B *Dunnell Minnesota Digest* §2578, at 145 & n.24 (Rev. 3d ed. 1966).

As to defendants' second objection, the issue of the liability of Rauenhorst Corporation to plaintiff for conpensatory damages was properly presented to the jury for its resolution. In response to Special Verdict Question No. 6, the jury found that the Rauenhorst Corporation intentionally caused Fabcon, Incorporated to breach or repudiate its Franchise Contract with plaintiff. The jury also determined in answering Special Verdict Question No. 4 that compensatory damages due plaintiff by reason of the breach of contract by Fabcon, Incorporated amounted to $1,500,00. Thus, the jury did determine the amount of damages plaintiff incurred because of the breach of the Franchise Contract. Rauenhorst Corporation and Fabcon, Incorporated are jointly and severally liable for these damages. The judgment is amended to reflect this determination.

II. MOTION FOR JUDGMENT NOTWITHSTANDING THE VERDICT OR, IN THE ALTERNATIVE, FOR A NEW TRIAL

Defendants raise numerous allegations of error in support of their motion. The standard for granting judgment notwithstanding the verdict is the same as that for a directed verdict. In reviewing the evidence on such a motion, a court must give the party who secured the jury verdict the benefit of all reasonable inferences to be drawn from the evidence. *Singer Co. v. E.I. du Pont de Nemours & Co.*, 579 F.2d 433, 440-41 (8th Cir. 1978). In making such a determination, the record must be examined and the testimony reviewed without assessing the credibility or weight of witnesses and evidence. *Id.* This Court may not substitute its judgment of the facts for the jury and should grant a judgment n.o.v. only where the evidence points all one way and is susceptible of no reasonable inferences sustaining the position of the nonmoving party. *Id.* A new trial should be granted only if it is reasonably clear that prejudicial error has crept into the record or that substantial injustice has not been done. *Fireman's Fund Insurance Co. v. Aalco Wrecking Co., Inc.*, 466 F.2d 179, 186-87 (8th Cir. 1972), *cert. denied*, 410 U.S. 930 (1973). The burden of proving harmful error rests on the party seeking the new trial. *Hansen v. Barrett*, 186 F. Supp. 527, 532 (D. Minn. 1960); 11 C. Wright & A. Miller, *Federal Practice and Procedure* §2803, at 32 (1973).

A. *Breach of Contract Claim Against Fabcon, Incorporated*

Defendants contend the $1,500,000 judgment against Fabcon, Incorporated cannot stand because it is fatally poisoned by the wrong answer to Special Verdict Question No. 3, and is not capable of adjustment by remittur or otherwise. The jury award of $1,500,000 compensatory damages is allegedly unsupported and unsupportable by the evidence because it includes breach of contract damages claimed by Span-Deck, Inc. for the period following October 5, 1975, the date when defendants contend the Franchise Contract expired according to its terms.

The jury answered "yes" to Special Verdict Question No. 3, which is as follows:

> Did renewal of the Franchise Contract occur as of October, 1975 in accordance with its terms?

Defendants contend, as they did in their motion for a directed verdict, that, as a matter of law, this contract renewal issue was not suitable for resolution by the jury because all of the evidence of record established that the Franchise Contract expired on October 5, 1975. Defendants further contend that the language of paragraph 4.3 of the Franchise Contract clearly provides that renewal "shall be automatically affected unless" Fabcon, Incorporated gave Span-Deck, Inc. six months prior written notice of its intention not to renew. Defendants claim this notice was given, as shown by exhibit DX-1227A. Thus, defendants conclude, the Franchise Contract expired according to its terms, as a matter of law, on October 5, 1975, and the issue should never have gone to the jury.

The question of renewal of the Franchise Contract was correctly submitted to the jury. The question involved resolution of certain factual isssues, upon which the evidence was in dispute, including: Whether the notice of nonrenewal by Fabcon, Incorporated was clear and unambiguous; and whether Fabcon, Incorporated complied with paragraphs 4.4, 4.8, and 4.9 of the contract. On these issues, plaintiff introduced evidence sufficient to present the question to the jury.

Initially, plaintiff had asserted that since Fabcon, Incorporated was in material breach of the contract prior to giving written notice of its intention not to renew, it could never prevent renewal unless and until all alleged breaches by it had been cured. The Court rejected this position and determined that renewal could be prevented if done in accordance with the terms of the agreement. In its charge to the jury, the Court stated:

> A contract may come to an end by its terms. The Span-Deck Fabcon Franchise Contract provides that it is to remain in effect for five years from October 5, 1970, and be automatically renewed for additional five year periods unless automatic renewal is properly prevented.
>
> The law does not prohibit the termination of a contract by a party who is in breach of the contract. Thus, even though you may find, after consideration of all the evidence, that defendants breached the contract, they may still rely upon the contract to exercise the option to prevent its renewal.

In so instructing, the Court presented the jury with factual issues as to the requirements of the contract relating to preventing renewal and satisfaction by Fabcon, Incorporated of those requirements. Plaintiff presented evidence as to the ambiguous nature of the notice by Fabcon, Incorporated. It further presented evidence of the intent of the parties in drafting paragraphs 4.3, 4.4, and 4.9 of the Franchise Contract. Paragraph 4.4 requires that "upon termination" Fabcon, Incorporated is required to finish existing production under contract, pay royalties on such produced plank, and cease further manufacture of Span-Deck plank. Plaintiff asserts that in order to prevent renewal Fabcon, Incorporated could not simply write a letter, but then continue to use trade secrets and patented equipment obtained from plaintiff. It had to, in effect, stop making Span-Deck plank. Plaintiff presented evidence concerning the nature of the contract rights, the scope of the defaults involved, and its overall franchise strategy. Accordingly, Special Verdict Question No. 3 was correctly presented to the jury and its answer was supported by more than a mere scintella of evidence in the record.

B. *Jury Verdict Assessing Punitive Damages Against Rauenhorst Corporation*

In its answers to Special Verdict Questions Nos. 6a and 6b, the jury found for plaintiff and assessed punitive damages of $2,000,000 against Rauenhorst Corporation. For a variety of reasons, Rauenhorst Corporation contends that the evidence was insufficient to support a finding of tortious inducement, and judgment for it on Count II of the complaint should have been entered as a matter of law. In the alternative, Rauenhorst Corporation sets forth grounds for granting a new trial on the inducement to breach claim.

1. Judgment N.O.V.

The first ground asserted for judgment n.o.v. is that there was no evidence from which the jury could have properly found that Rauenhorst Corporation caused Fabcon, Incorporated to breach the Franchise Contract. Rauenhorst Corporation contends that the causation element of the tort of inducing contractual breach, *Snowden v. Sorenson*, 246 Minn. 526, 532, 75 N.W.2d 795, 799 (1956), was not proven because the alleged breach by Fabcon, Incorporated occurred in January 1973, while Rauenhorst Corporation did not become involved until April 30, 1973. Obviously, an act following a breach cannot be the cause of that breach. *See McDonald v. Stewart*, 289 Minn. 35, 39, 182 N.W.2d 437, 439 (1970). However, evidence in the record indicates involvement by Rauenhorst Corporation at an earlier date than April 30, 1973. Thus, a factual question was generated and properly presented to the jury for its resolution. The record clearly indicates evidence supporting a finding of causation sufficient to withstand the motion of Rauenhorst Corporation.

The second critical element of the tort that Rauenhorst Corporation contends is absent is a finding that it acted without justification. *Johnson v. Radde*, 293 Minn. 409, 410-11, 196 N.W.2d 478, 480 (1972); *Snowden*, 246 Minn. at 532, 75 N.W.2d at 799. Justification is defined as reasonable conduct under the circumstances. *Radde*, 293 Minn. at 410-11, 196 N.W.2d at 480. It is an affirmative defense, with the burden of proving it resting upon the defendant. *Id.;* 19A *Dunnell Minnesota Digest* 2d §2.00 (e) (Rev. 3d ed. 1978). Rauenhorst Corporation contends the Court failed to instruct the jury on justification and that the evidence shows that it was, in fact, justified in its action.

In its opening instruction to the jury on the inducement of breach claim, the Court stated:

> In order for the plaintiff to recover on this theory you must find that Rauenhorst took separate intentional actions which can be sensibly separated from the breach of contract and which *unjustifiably* interfered with the contractual relation between plaintiff and Fabcon.

(emphasis added). Later, in concluding the instructions on this claim, the Court stated:

> If you find that Rauenhorst and Fabcon are not alter-egos and you also find that plaintiff has proven that Rauenhorst took separate actions which interfered with the contract, then you must also consider whether the actions were *unjustified*.

(emphasis added). These instructions clearly required the jury to make a finding that Rauenhorst Corporation acted without justification if they were to conclude Rauenhorst Corporation committed the tort.

Rauenhorst Corporation contends that the instructions given by the Court were inadequate because they did not specify the types of conduct to be regarded as legally justifiable. In support of its argument, Rauenhorst Corporation cites sections 769, 770, and 774 of the *Restatement (Second) of Torts,* which concern types of conduct to be regarded as privileged; hence, justified under the circumstances. An in-depth analysis of each section is not required. Instructions incorporating these Restatement sections were not required by Minnesota law.

As already mentioned, justification amounts to reasonable conduct under all the circumstances of the case. *Bennett v. Storz Broadcasting Co.*, 270 Minn. 525, 537, 134 N.W.2d 892, 900 (1965). The Minnesota Supreme Court has stated "[t]he term is not susceptible of any precise definition, and normally is a question of fact for the jury's determination." *Royal Realty Co. v. Levin*, 244 Minn. 288. 295, 69 N.W.2d 667, 673 (1955). While it may have been preferable to define justification for the jury as reasonable conduct under the circumstances, failure to do so can hardly be grounds for rejecting the verdict. The term is one of common understanding and certainly not beyond that of a jury.

Rauenhorst Corporation fails to cite a single Minnesota case adopting any of the Restatement sections relied upon. Their suggestion that the analysis in *Space Center, Inc. v. 451 Corporation*, 298 N.W.2d 443 (Minn. 1980), is consistent with section 769 is a misreading of that case. The issue in *Space Center* was whether the tort inducers' actions could be sensibly separated from the action of the tortfeasor. *Id.* at 452. The concept of privilege, as exemplied in the Restatement, was neither discussed nor relevant. Further elaboration of justification, as requested by Rauenhorst Corporation, was unnecessary and contrary to Minnesota law. The jury charge adequately presented to the jury the concept of justification.

Rauenhorst Corporation also contends that it is entitled to judgment in its favor because the award of punitive damages for tortious inducement was inconsistent with Minnesota law. Under the law of this state, Rauenhorst

Corporation contends that punitive damages cannot be assessed against a defendant unless the defendant is also found liable for compensatory damages, except in a defamation case. *Meixner v. Buecksler*, 216 Minn. 586, 591, 13 N.W.2d 754, 756-57 (1944). In the absence of such a finding against Rauenhorst Corporation, it asserts that the punitive damages award is a legal nullity. However, the Order herein amending the judgment to make Rauenhorst Corporation jointly and severally liable for the $1,500,000 compensatory damages award makes this argument moot. Moreover, the statement of law set forth by Rauenhorst Corporation finds only questionable support in Minnesota case law. *See Loftsgaarden v. Reiling*, 267 Minn. 181, 181-82, 126 N.W.2d 154, 154 (1964), *cert. denied*, 379 U.S. 845 (1964).

Rauenhorst Corporation asserts it is entitled to judgment in its favor because there is no evidence that it acted with malice toward Span-Deck, Inc. Malice is the wilful violation of a known right. *Cherne Industries, Inc. v. Grounds & Associates*, 278 N.W.2d 81, 95 (Minn. 1979); *Carnes v. St. Paul Union Stockyards Co.*, 164 Minn. 457, 462, 205 N.W. 630, 631-32 (1925). A review of the record shows that the jury was presented with sufficient evidence from which it could reasonably conclude that Rauenhorst Corporation acted with malice.

2. New Trial

Alternatively, Rauenhorst Corporation contends that this Court should grant a new trial on the inducement of breach claim of Span-Deck, Inc. because the instructions were incorrect, incomplete, and contradictory. Further, that at a minimum, a new trial on punitive damages is required. These arguments are without merit.

The instructions are allegedly incorrect because of they incorrectly state the elements of the tort and, in particular, fail to define justification. The Court has already discussed and rejected these arguments.

Rauenhorst Corporation asserts the instructions are incomplete due to the refusal of the Court to give their requested instruction 121. That instruction set forth a definition of privileged conduct, which Rauenhorst Corporation claims made its actions legally justified. The instruction was a further attempt to define justification, which the Court has determined was not necessary. Moreover, the instruction was not supported by the facts of the case.

In drafting instruction 12I, defendants relied largely on *Lear v. Adkins*, 395 U.S. 653 (1969), which holds that a patent licensee is not barred by estoppel from challenging the licensor's patent. *Id.* at 670-71. The present action did not involve, however, solely a patent license, but rather a franchise agreement for which consideration, in addition to the patents, existed. Thus, the actions of defendants were not privileged, even under the *Lear* doctrine, because their challenge to the patent necessitated a breach of an otherwise allegedly valid contract. The attempt by defendant to extend *Lear* beyond its holding is unsupported by case law or logic. Unless a requested instruction is entirely correct and may be given without qualification, there is no error in refusing it. *Brown v. Cedar Rapids & Iowa City Railway*, No. 80-1209, slip op. at 9 (8th Cir. June 11, 1981) (citing *Emery v. Northern Pacific Railroad*, 407 F.2d 109, 112 n.3 (8th Cir. 1969)).

Defendants next challenge the instructions as being contradictory. The precise nature of this objection is difficult to discern. The general thrust of their argument appears to be that certain parts of the relevant instruction were inconsistent with Special Verdict Question No. 6. It is axiomatic that the jury charge must be read as a whole and in conjunction with the special verdict form. *E.I. du Pont de Nemours v. Berkley & Co., Inc.*, 620 F.2d 1247, 1270 (8th Cir. 1980). In any complex case, it is possible to read the instructions selectively so as to support a challenge to their correctness. A fair reading of the entire charge shows it was a correct statement of law and an adequate presentation of the factual issues.

Rauenhorst Corporation sets forth additional reasons for granting a new trial as to the claim of plaintiff for punitive damages. These include: (1) Lack of foundation in the record for a finding of malice on the part of Rauenhorst Corporation; (2) Special Verdict Question No. 6 incorrectly implied that, if liability were found, plaintiff had a right, without any additional showing, to recover punitive damages against Rauenhorst Corporation; (3) the instructions on punitive damages were fatally flawed by the omission of four of the eight factors set forth in Minn. Stat. §549.20 (1980); and (4) the amount of damages awarded by the jury was so clearly excessive that it must have been the product of passion and prejudice.

Addressing these arguments seriatim, the Court has already determined that there was sufficient evidence from which the jury could reasonably conclude that Rauenhorst Corporation acted with malice. A careful reading of Special Verdict Question No. 6 in the context of all of the special verdict questions and the instructions makes it clear that the jury had to find that the acts of Rauenhorst Corporation were done purposefully against, or with wilful indifference to, the rights of Span-Deck, Inc. in order to award any punitive damages. Section 549.20 does not require that every one of the factors listed in subdivision 3 be considered, only those "that justly bear upon the purpose of punitive damages. . . ." Minn. Stat. §549.20, subd. 3; *see Wilson v. City of Eagan*, 297 N.W.2d 146, 151 (Minn. 1980). The instruction adequately set forth the appropriate factors to be considered. Finally, the amount of the punitive damages award was amply supported by evidence in the record when viewed in the light of the appropriate factors. The verdict was well within the discretion of the jury. *Wilson*, 297 N.W.2d at 151.

C. *Additional Trial Errors*

In addition to the alleged errors already discussed, defendants contend there were other errors in jury instructions, special verdict questions, and evidentiary rulings. Defendants believe these errors provide additional grounds to support their motion for relief from the jury verdict. These alleged errors are merely listed, however, and, ostensibly for the sake of brevity, defendants do not argue the basis for the claimed errors because the points have already been briefed and argued during the trial. Without more, the Court is unpersuaded that any of the instructions, questions, or evidentiary rulings were in error or provide any ground for granting the motion of defendants.

III. PATENT VALIDITY AND INFRINGEMENT

Defendants seek entry of judgment notwithstanding the verdict as to Counts VI and VII and their Counterclaim. In support, defendants contend: (1) The Kinnard patent is not infringed, literally or equivalently, by the equipment used at the Fabcon, Incorporated plant; (2) the Kinnard and Mitchell patents are invalid; (3) the machine purchased from Span-Deck, Inc. carried with it an implied license under the casting machine patents owned by Span-Deck, Inc., and therefore, as a matter of law, there is no infringement; and (4) patent misuse and inequitable conduct by Span-Deck, Inc. make the patents unenforceable.

Patent validity and infringement are questions of law based largely on factual determinations and are properly determined by the trial judge after receiving the factual determinations of the jury. *Control Components, Inc. v. Valtek, Inc.* 609 F.2d 763, 766-68 (5th Cir. 1980). The findings of fact by the jury that underlie the legal conclusions may not be overturned if supported by substantial evidence. *Velo-Bind, Inc. v. Minnesota Mining & Manufacturing Co.*, 647 F.2d 965, 971 (9th Cir. 1981).

A. *Infringement of Kinnard Patent*

Defendants contend that the claims of the Kinnard patent are limited to the structure claimed therein and are not infringed by the rolling-bed casting machine at the Fabcon, Incorporated plant. Specifically, they argue that each of the claims of the Kinnard patent contain important structural limitations not found in the equipment used by Fabcon, Incorporated. If every element of a claim is not found in the device in question, there is no infringement. *Imperial Stonecutters, Inc. v. Schwartz,* 370 F.2d 425, 427 (8th Cir. 1966).

Initially, a determination of infringement turns on resolving the issue of whether the Kinnard patent applies only to casting equipment with a bed that is fixed relative to the earth. Claim 1 of the Kinnard patent, which contains essentially the same limitations as the other claims, describes as "apparatus for manufacturing an elongated cored concrete structural member comprising: . . . a frame adapted to be moved longitudinally of said bed . . . and means for moving said frame longitudinally of said bed in a direction opposite the open end of said mold continuously during the feeding of said core material and the deposit of said fluid concrete. . . ." Glenn W. Starke, an expert witness called by defendants, testified the claims were not readable upon the equipment used by Fabcon, Incorporated. Further, defendants argue that Gordon P. Daisley, a skilled patent lawyer who prepared and presented the Kinnard Patent application, admitted the Kinnard claims were not readable upon rolling bed machines. The Court must conclude, despite Larry Foster's contrary testimony, that the claims describe a fixed-bed casting machine that does not read upon a rolling-bed casting machine, as used by Fabcon, Incorporated.

This conclusion is buttressed by the fact that Daisley, in preparing the patent application that resulted in the Kinnard patent, changed the claims from those included in the first Continuation-In-Part application. He deleted the word "relatively" from the generic claim, which had described the invention in terms of relative movement. This change narrowed the scope of the generic claim by dropping language covering movement and restricting the machine to a stationary bed with a moving frame. Two species claims, one of which contained the word "stationary," were also deleted. As specie claims do not define the scope of the generic claim, the deletion of the specie claim referring to a stationary bed has no significance to the interpretation of the generic claim. It merely eliminated a redundancy since the remaining generic claim was limited to a stationary bed.

Plaintiff is also estopped from adopting a broader interpretation of the language of the Kinnard claims. The "doctrine of equivalents" permits a finding of infringement by a device that works in substantially the same way to accomplish the same result as the patented device. *Graver Tank & Manufacturing Co. v. Linde Air Products Co.*, 339 U.S. 605, 607 (1950). Here, the rolling-bed casting machine at the Fabcon, Incorporated plant would fall within the range of equivalents of the Kinnard patent. However, the doctrine of file wrapper estoppel prohibits the application of the doctrine of equivalents.

The doctrine of file wrapper estoppel precludes a patent owner in an infringement suit from obtaining a construction of a claim by resort to the doctrine of equivalents that would, in effect, resurrect subject matter surrendered during the course of patent application proceedings. *Aeration Processes, Inc. v. Lange*, 196 F.2d 981, 985 (8th Cir. 1952). The history of the prosecution of the Kinnard patent shows that the Patent Examiner rejected all claims of broad generic scope concerning relative movement between the frame and the bed and narrower species claims to rolling-bed and fixed-bed systems in the earlier patent applications. These claims were then canceled by Kinnard allowing the broader parent applications to be abandoned and proceeding only with the limited claims contained in the issued patent.

The Court concludes that, as a matter of law, the Kinnard patent is not infringed by the equipment used by Fabcon, Incorporated.

B. *Validity of Kinnard and Mitchell Patents*

Defendants contend both the Kinnard and Mitchell patents are invalid and, therefore, not infringed. The Kinnard patent, it is argued, is invalid because a fixed-bed casting machine similar to the one shown in the Kinnard patent was publicly used or "on sale" for more than one year prior to the filing date of the Kinnard application. The Mitchell patent is allegedly invalid on several grounds.

With respect to the Kinnard patent, Special Verdict Question No. 13 submitted the public use issue to the jury, which decided that no claim was publicly used more than one year before the effective filing date of the Kinnard patent application. Defense witness Glen Starke refused to give a definite opinion supporting the argument of defendants on this matter. The evidence was also in conflict as to the correct filing date and to whether the use was experimental or not. Based on this evidence, the jury could reasonably have arrived at its answer to Special Verdict Question No. 13, and its finding cannot, as a matter of law, be set aside.

Defendants argue the Mitchell patent is invalid on several independent grounds: (1) Prior art patents that were not cited to the Patent Examiner anticipate any invention claimed in the Mitchell patent; (2) the disclosure of the rolling bed in the earlier abandoned Kinnard applications is unequivocal evidence that William Mitchell was not the inventor of the rolling-bed machine; (3) Mitchell could not have independently conceived the rolling-bed system invention claimed in the Mitchell patent; (4) Span-Deck, Inc., by failing to call the Patent Examiner's attention to the fact that the abandoned Kinnard patent applications showed the same rolling-bed invention claimed by

Mitchell, failed to live up to its uncompromising duty of candor and good faith; (5) the failure of Span-Deck. Inc. to disclose the contents of the Kinnard application and the Brown patent to the Patent Office during the prosecution of the Mitchell patent constituted a fraud on the Patent Office; and (6) the October/November 1966 newsletter of Span-Deck, Inc. is evidence of a statutory bar, which was withheld from the Patent Office.

Each of the claims were raised at trial and presented factual issues that were submitted to the jury for resolution. While the evidence was in dispute, defendants have failed to show that there was no evidence in the record from which the jury could have reached its decisions. Based on the jury's factual determinations and an independent evaluation of the evidence, the Court must conclude that, as a matter of law, the Mitchell patent is valid.

Defendants also contend that the provisions of the Franchise Contract, as well as the evidence, require a judgment of non-infringement, notwithstanding the jury verdict. They argue that under the terms of the agreement the casting machine was sold outright and that it carried with it a right to use the machine without interference from plaintiff. Hence, as a matter of law, there is no infringement of the Kinnard and Mitchell patents. *United States v. Univis Lens Co.*, 316 U.S. 241, 249-51 (1942); *Adams v. Burks*, 84 U.S. (17 Wall.) 453, 456-57 (1873).

This argument, however, misses the mark since the issue here is not one of use, but of compensation for use. Fabcon, Incorporated agreed to pay royalties for, among other things, the use of the patented equipment of plaintiff. Absent fulfillment of this agreement, there can be no denying the existence of infringement. After reviewing the contract's terms, the Court concludes that the Franchise Contract provided for an implied license to use the equipment, but only on conjunction with royalty compensation.

Finally, defendants assert that misuse of the patents and inequitable conduct make the patents unenforceable. Defendants set forth two instances involving other parties and certain conduct by plaintiff, which defendants claim was illegal. On the slim facts provided, this Court is unpersuaded that the conduct was illegal.

IV. REQUEST FOR INJUNCTIVE RELIEF

Plaintiff asks the Court for injunctive relief to compel Fabcon, Incorporated to pay royalties when due and otherwise abide by the terms of the Franchise Contract. This relief is based on the prayer for relief found in Count I of the Complaint, which asks for an order "directing specific performance by Fabcon of the terms of the Agreement, including the payment of royalties thereunder."

A judgment may provide for both damages and an injunction for specific performance. *See Watson v. United States Life Insurance Co.*, 258 N.W.2d 776, 778-79 (Minn. 1977) (citing *Indianhead Truck Line. v. Hvidsten Transport, Inc.*, 268 Minn. 176, 193, 128 N.W.2d 334, 336 (1964)). *See generally Restatement of Contracts* §384(2) (1932). 11 *Williston on Contracts* §1444A, at 988-89 (3d ed. 1968). Contrary cases cited by defendants are simply inapposite. However, plaintiff has not shown that an injunction is appropriate at this time. Plaintiff suggests that the strategy of defendants in the event of an unsuccessful appeal will be to refuse to pay the royalties, thus causing the entire matter to be relitigated. This unsupported conjecture does not provide sufficient basis for granting of injunctive relief. Even if subsequent litigation becomes necessary, it would not need to be as protracted since the res judicata effect of this judgment would largely resolve most, if not all, issues. Furthermore, plaintiff clearly has a remedy at law—money damages—that adequately protects its interests at this time. *Cherne Industries, Inc.*, 278 N.W.2d at 92; *see O.M. Droney Beverage Co. v. Miller Brewing Co.*, 365 F. Supp. 1067, 1071 (D. Minn. 1973).

Based on the foregoing, the record, and the briefs and arguments of counsel,

IT IS HEREBY ORDERED that

1. The motion of plaintiff to amend the judgment is granted such that the $1,500,000 compensatory damages award is assessed against Fabcon, Incorporated and Rauenhorst Corporation, jointly and severally.

2. The Court finds that the Kinnard patent is not infringed by the equipment used by Fabcon, Incorporated. In all other respects, the motion of the defendants for a judgment notwithstanding the verdict, or in the alternative, for a new trial is denied.

3. The request of plaintiff for injunctive relief is denied.

LET JUDGMENT BE ENTERED ACCORDINGLY.
July 21, 1981.

/s/ Robert G. Renner
ROBERT G. RENNER
United States District Judge

APPENDIX C

United States District Court
District of Minnesota
Fourth Division

Span-Deck, Inc.,
Plaintiff,
vs.
Fabcon, Incorporated and Rauenhorst Corporation,
Defendants.

Special Verdict Form

Civil 4-73-535

Bearing in mind the foregoing instructions, you will answer the following questions as indicated:

Question No. 1.

Was the written Franchise Contract of October 7, 1970 between Span-Deck, Inc. and Fabcon, Inc. supported by consideration?

Answer: Yes X No ———

Question No. 1A.

Were the patents consideration for the contract?

Answer: Yes X No ———

Question No. 1B.

Were there other considerations for the contract?

Answer: Yes X No ———

Question No. 2.

Did Fabcon breach the Franchise Contract?

Answer: Yes X No ———

Question No. 3.

Did renewal of the Franchise Contract occur as of October, 1975 in accordance with its terms?

Answer: Yes X No ———

Question No. 4.

What is the amount of compensatory damages, if any, due to Span-Deck by reason of Fabcon's breach of contract?

Answer. $1.500,000

Question No. 5.

Was Fabcon, Inc. the agent, instrumentality or alter ego of Rauenhorst Corporation?

Answer: Yes——— No X

Only if your answer to Question No. 2 was "Yes," and your answer to Question No. 5 was "No", proceed to answer Question No. 6, otherwise proceed to Question No. 7.

Question No. 6.

a) Did Rauenhorst Corporation intentionally cause Fabcon to breach or repudiate the Franchise Contract?

Answer: Yes X No ———

b) If so, what amount of punitive or exemplary damages should be assessed against Rauenhorst Corporation?

Answer: $2,000,000

Question No. 7.

Did Span-Deck have trade secrets in 1970?

Answer: Yes X No ———

Question No. 8.

Did Fabcon acquire and use Span-Deck trade secrets as a result of a confidential relationship with Span-Deck?

Answer: Yes X No ———

Question No. 9

a) Has Fabcon discontinued its use of Span-Deck trade secrets?

Answer: Yes ——— No X

b) If so, enter the date upon which said event occurred.

Answer: ———

Question No. 10.

Has Span-Deck shown by a preponderance of the evidence that Fabcon uses equipment at the Fabcon plant which includes each element of any claim of the Kinnard patent or that the Fabcon plant includes a part or parts which are substantially similar and operate in substantially the same way to produce substantially the same result as each element of any claim?

Answer: Yes X No ———

Answer Question No. 10A only if your answer to Question No. 10 was "Yes".

Question No 10A.

Was the defendants' use of the Kinnard patent willful and wanton?

Answer: Yes X No ———

Question No. 11.

Has Span-Deck shown by a preponderance of the evidence that Fabcon uses equipment at the Fabcon plant which includes each element of any claim of the Mitchell patent or that the Fabcon plant includes a part or parts which are substantially similar and operate in substantially the same way to produce substantially the same result as each element of any claim?

Answer: Yes X No ———

Answer Question 11A only if your answer to Question 11 was "Yes".

Question No. 11A.

Was the defendant's use of the Mitchell patent willful and wanton?

Answer: Yes X No ———

Question No. 12.1.

What is the amount of damages, if any, due to Span-Deck by reason of any use by Fabcon of Span-Deck trade secrets?

Answer: $375,000

Question No. 12.1(a).

What is the amount of damages, if any, due to Span-Deck by reason of the infringement by Fabcon of the Kinnard or Mitchell patents?

Answer: $375,000

Question No. 12.2.

What is the amount of punitive damages, if any, due to Span-Deck by reason of any use by Fabcon of Span-Deck trade secrets?

Answer: $400,000

Question No. 13.

Have defendants shown by clear and convincing evidence that any claim of the Kinnard invention was publicly used more than one year before the effective filing date of the Kinnard patent application? For each claim answer "Yes" or "No."

Answer:	*Yes*	*No*
	Claim 1———	X
	Claim 2 ———	X
	Claim 3———	X
	Claim 4 ———	X
	Claim 5 ———	X
	Claim 6 ———	X
	Claim 7 ———	X

Question No. 14.

Was Vester Warf a coinventor of any claims of the Kinnard patent? If so, for each claim below state either "Yes," or "No."

Answer.	*Yes*	*No*
	Claim 1 ———	X
	Claim 2 ———	X
	Claim 3 ———	X
	Claim 4 ———	X
	Claim 5 ———	X
	Claim 6 ———	X
	Claim 7 ———	X

Question No. 15.

Did Claiborne Kinnard or his attorneys with deceptive intent omit naming Vester Warf as an inventor?

Answer Yes——— No X

Question No. 16.

Is the invention claimed in any claim of the Mitchell patent described in any of the following documents in such terms as to enable any persons skilled in the art to which the Mitchell invention pertains to practice the Mitchell invention:

(a) U.S. Patent No. 1,891,626 issued to Mortimer

(b) U.S. Patent No. 2,039,204 issued to Young

(c) U.S. Patent No. 2,655,706 issued to Eschenbrenner

(d) U.S. Patent No. 2,970,361 issued to Brown

(e) Kinnard patent application Ser. No. 50,351

(f) Kinnard patent application Ser. No. 129,214

For each claim below state either "Yes" or "No."

Answer:	*Yes*	*No*
	Claim 1 ———	X
	Claim 2 ———	X
	Claim 6 ———	X
	Claim 10 ———	X
	Claim 11 ———	X

Question No. 17.

Did the public receive copies of the October-November 1966 Span-Deck Newsletter before December 5, 1966?

Answer Yes ——— No X

Question No. 18.

Is the invention claimed in any claims of the Mitchell patent described in the October-November 1966 Span-Deck

Newsletter in such terms as to enable any persons skilled in the art to which the Mitchell invention pertains to practice it?

Answer: Yes ——— No X

Question No. 19.

Was the invention claimed in any claim of the Mitchell patent "on sale" before December 5, 1966?

Answer: Yes ——— No X

Question No. 20.

Would the invention claimed in the Mitchell patent have been obvious to one of ordinary skill in that art at the time the invention was made?

Answer: Yes ——— No X

Question No. 21.

Did William Mitchell or his attorney, Gordon Daisley, withhold information from the Patent Office which was material to the prosecution of the Mitchell patent?

Answer: Yes ——— No X

Question No. 22.

If your answer to Question No. 21 is "Yes," was the information withheld with deceptive intent?

Answer: Yes ——— No ———

Dated: February 13, 1981.

/s/ ———————

Foreperson

APPENDIX D

United States District Court
District of Minnesota
Fourth Division

Span-Deck, Inc.,
Plaintiff,
vs.
Fabcon, Incorporated and Rauenhorst Corporation,
Defendants.

Order

Nunc Pro Tunc

Civ. No. 4-73-535

Pursuant to Fed. R. Civ. P. 60(a), IT IS HEREBY ORDERED THAT the Order entered March 6, 1981, in this case shall be amended to read as follows:

The Court having received the jury's verdict,

IT IS ORDERED THAT the Clerk of Court enter judgment in favor of the plaintiff and against the defendant Fabcon, Incorporated in the amount of One Million Five Hundred Thousand Dollars ($1,500,000).

IT IS FURTHERED ORDERED THAT the Clerk of Court enter judgment in favor of plaintiff and against defendant Rauenhorst Corporation in the amount of Two Million Dollars ($2,000,000).

IT IS FURTHERED ORDERED THAT the Clerk of Court enter judgment in favor of plaintiff and against the defendants on defendants' counterclaim and dismiss defendants' counterclaim with prejudice.

Let judgment be entered accordingly.

Dated: March 10, 1981.

/s/ Robert G. Renner
ROBERT G. RENNER
United States District Judge

APPENDIX E

United States Court of Appeals
for the Eighth Circuit

No. 81-1829

September Term, 1981

Span-Deck, Inc., a Tennessee corporation,
Appellee,

vs.

Fab-Con, Incorporation, a Minnesota corporation, et al,
Appellants.

Judgment

This appeal from the United States District Court for the ———— District of Minnesota was considered on a designated record from the United States District Court and on briefs of the respective parties and was argued by counsel.

After consideration, it is ordered and adjudged that the judgment of the said District Court in this cause be, and the same is hereby, vacated.

It is further ordered that this cause be, and it is hereby, reversed and remanded to the said District Court for proceedings consistent with the opinion of this Court.

May 12, 1982

APPENDIX F

United States Court of Appeals
for the Eighth Circuit

No. 81-1829

September Term 1981

Span-Deck, Inc., a Tennessee corporation,
Appellee,

vs.

Fab-Con, Incorporated, a Minnesota corporation, et al,
Appellants.

Appeal from the United States District Court
for the District of Minnesota

The Court, having considered appellee's petition for rehearing and suggestions for rehearing en banc and being now fully advised in the premises, hereby orders the petition for rehearing and suggestions for rehearing en banc denied.

June 7, 1982

APPENDIX G

Plaintiff's Exhibit 147

AGREEMENT
SPAN-DECK, INC.
FABCON, INCORPORATED
10/7/70

SPAN-DECK FRANCHISE CONTRACT

THIS AGREEMENT, made and entered into this 7 day of October, 1970, between SPAN-DECK, INC., a Tennessee corporation, with its principal office in Franklin, Williamson County, Tennessee, "LICENSOR", and FABCON, INCORPORATED, a Minnesota corporation, with its principal office "LICENSOR", and FABCON, INCORPORATED, at 4444 Rauenhorst Circle, Minneapolis, Minnesota, 55435, Hennepin County, Minnesota, "LICENSEE".

Witnesseth:

Part 1.

1. LICENSOR acknowledges receipt of the sum of TWO THOUSAND FIVE HUNDRED DOLLARS ($2,500.00), cash, paid by LICENSEE.

2. LICENSOR, in consideration of the sum, and of the mutual agreement and undertakings herein contained, agrees:

2.1 To supply to LICENSEE at the price and in accordance with the terms set forth in Exhibit 1 attached hereto and made a part hereof, a casting machine, (which, for the purposes of this agreement, wherever used herein, shall be deemed to include the rolling bed) developed by LICENSOR for the manufacture (in conjunction with other equipment to be built and/or supplied by LICENSEE) of concrete cast products, including "Span-Deck products", which for the purposes of this agreement, are defined as prestressed cored concrete floor and roof plank and wall panels with or without insulated filling in the core, the plank and panels being known as "Span-Deck" and the filling being known as "Insulcore".

2.2 To furnish LICENSEE standard detail drawings for the equipment necessary to cast Span-Deck products.

2.3 To furnish for a period of five (5) consecutive days, without costs to LICENSEE, competent personnel to check on LICENSEE'S installation and procedures and thereafter, as requested, to furnish advisory personnel to LICENSEE, LICENSEE to pay all expenses incurred to LICENSOR for such services.

2.4 To render to LICENSEE all reasonable assistance in making available to it LICENSOR'S experience and knowledge, its know-how and trade secrets regarding the manufacture and use of said products and to permit LICENSEE to send supervisory personnel to LICENSOR'S plant and to study LICENSOR'S processes and equipment; to consult with LICENSOR by telephone or by mail and to obtain from LICENSOR advice with respect to the manufacture and use of said products.

2.5 That LICENSOR grants to LICENSEE the exclusive right for a period of five (5) years from the date hereof to manufacture in the location or locations hereinafter set out Span-Deck products as herein defined or other cast concrete products produced under LICENSOR'S processes or utilizing said casting machine embodying the inventions defined by the claims of U.S. Patent No. 3,217,375 and U.S. Patent No. 3,523,343.

2.6 That LICENSOR grants to LICENSEE the exclusive right for said period to use the trademarks Span-Deck and Insulcore on Span-Deck products as herein defined, when such products are manufactured in accordance with this agreement.

2.7 It will make available to LICENSEE without additional royalties, any designs or improvements on said machines and any new developments in said process or procedures of manufacture.

3. LICENSEE, in consideration of the mutual agreements and undertakings herein contained, agrees:

3.1 To pay to LICENSOR, in cash, the cost of the aforesaid casting machine and other equipment, on the same being ready for delivery to LICENSEE, in the amounts set out in and in accordance with the terms and conditions of Exhibit 1 attached.

3.2 To pay to LICENSOR at Franklin, Tennessee, monthly royalties, during the period that this franchise is in effect, as follows:

(a) On SPAN-DECK products, 3¢ per square foot for the first 500,000 square feet; 2½¢ per square foot on the next 500,000 square feet; and 2¢ per square foot on all over 1,000,000 square feet of usable SPAN-DECK products produced in any one (1) contract year, as hereinafter defined; provided that, commencing six (6) months after the date hereof, irrespective of production of said SPAN-DECK products, there shall be a minimum royalty payable hereunder of TWO HUNDRED FIFTY DOLLARS ($250.00) per month, provided, that all royalties in excess of THREE THOUSAND DOLLARS ($3,000.00) due for any contract year shall be credited with and reduced by the amount of any monthly minimum royalties paid or due during said contract year; provided further, that during any period that LICENSEE'S production may be prevented by governmental directive resulting from War or other national emergency, the obligation for royalties for such period of production shall be suspended. A contract year shall be deemed to commence on the First Day of September and terminate on the 31st Day of August of each year.

(b) On any other concrete products made by the franchised method or by the use of said casting machine, LICENSEE shall pay a royalty on such other products commensurate with the royalty payable on SPAN-DECK products under the provisions of 3.2(a) hereof, unless the parties shall otherwise agree.

(c) It is understood and agreed that LICENSEE may manufacture other concrete products in its plant not utilizing said processes or said casting machine without the payment of royalties hereon.

3.3 To remit to LICENSOR the royalties due hereunder on the 15th day of the month on production of usable products for the preceding month (or the minimum royalties due hereunder for the preceding month).

3.4 To keep full and accurate records showing the quantities in square feet of all SPAN-DECK products and any other products made by or with the franchised method and/or with said machine, and to submit accurate reports showing the above to LICENSOR monthly, along with its monthly remittance. LICENSOR shall have the right, at all reasonable times, to inspect the accounts and records of LICENSEE; provided further, that, if requested by LICENSOR, LICENCEE will, within a reasonable time, after the close of any calendar year, furnish LICENSOR a statement, certified as correct, prepared by LICENSEE'S regularly employed accountant or by a Certified Public Accountant, showing total gross production of said products during said period as reflected by LICENSEE'S books.

3.5 Not to manufacture, during the existence of this agreement, SPAN-DECK products as herein defined under any other name and, unless otherwise agreed to by LICENSOR in writing, not to use the names or trademarks SPAN-DECK or INSULCORE in connection with the sale of any products other than SPAN-DECK products as herein defined and not to manufacture any products on which royalties are payable under the terms of this franchise agreement outside of the territory herein described.

3.6 Not to assign any part of its rights under this contract or attempt to grant to any other person or corporation the right to avail himself of any of the rights acquired hereunder without LICENSOR'S written consent.

3.7 To maintain the standards of quality and workmanship and engineering practices that LICENSOR specifies, and to maintain and abide by the engineering limits of the product as furnished by LICENSOR, and to keep in its employ or utilize a competent engineer to direct the production and installation of said products.

4. The parties further agree:

4.1 In the franchise area, LICENSEE will cooperate with LICENSOR at the sole cost and expense of LICENSOR in taking such legal action as might be reasonably necessary to protect said trademarks, LICENSOR'S processes, and the patents thereon. In the event a final judgment should be entered in a Court of competent jurisdiction determining

(a) That the right to the use of the name SPAN-DECK is not exclusively vested in LICENSOR and its LICENSEE, for the manufacture of such product in the territory covered by this agreement, or

(b)That LICENSOR'S machine and/or processes are not protected by LICENSOR'S patents, with the effect that persons not licensed by LICENSOR may utilize same without liability for infringement, or with the effect that use of same is deemed an infringement of patents owned by persons other than LICENSOR, then LICENSEE may, at its option, terminate this license agreement by giving 60 days notice by registered mail, whereupon both parties will be released from all obligations under this agreement except that LICENSEE shall not be released from its Agreement to pay royalties already due or any other accrued obligation, nor from any other agreement herein contained which is stated to be binding subsequent to termination of this contract.

4.2 LICENSEE agrees that it shall, throughout the term of this franchise, exercise its best efforts with reasonable diligence to promote the making, using, and selling throughout its territory, of SPAN-DECK products. LICENSEE agrees that it will put into operation, within twelve (12) months from the date of execution of this contract, a plant for the manufacture of said products, and its failure so to do, unless occasioned by reasons beyond its control, shall be deemed a breach of this contract, entitling LICENSOR to revoke the franchise herein granted.

4.3 This Agreement may be renewed at the option of the LICENSEE for an additional period of five (5) years, and thereafter for additional periods of five (5) years, provided that LICENSEE shall not be in default under any provisions of this Agreement. Renewal shall be automatically effected unless LICENSEE gives written notice of its intention not to renew to LICENSOR, at least six (6) months prior to the expiration of the original term of this Agreement or any renewal term.

4.4 In the event of termination of this Agreement in any manner, LICENSEE shall have the right to complete any and all contracts which it may be obligated to fulfill, paying the royalties thereon, but it shall not further use, either directly or indirectly, the trade-marks or trade names, any trade secrets or valid, protected patented processes of LICENSOR, or use or employ any imitations of LICENSOR'S trade names, trade-marks, or valid, protected patented processes, if acquired during the term of this Agreement; and these obligations shall continue after termination of this Agreement.

4 5 LICENSEE agrees to make available to LICENSOR any improvements in the machinery or

any processes, franchised hereunder, which it may develop during the term of this Agreement or any renewal term, to the end that any such improvements developed by any LICENSEE may be available to all licensees.

4.6 LICENSEE agrees to indemnify and hold harmless LICENSOR against any and all claims for loss, liability or damages arising out of or in connection with its manufacture, use, and/or installation of products manufactured by it, and this obligation shall survive termination. and it agrees to maintain at its cost at all times during the continuation of this franchise, adequate comprehensive public liability and products liability insurance, naming LICENSOR as an additional insured, and it agrees to maintain with LICENSOR a certificate or certificates evidencing such insurance.

4.7 The parties are desirous of protecting against serious inflation or deflation over the period of this Agreement and any extension thereof, and to this end agree as follows: If on January 1 of any year during the term of this Agreement or extension, the Wholesale Price Index for Construction Materials (one of the special commodity groups utilized in deriving the Whole Price Index) as complied by the United States Department of Labor, Bureau of Labor Statistics, departs by twenty-five (25%) percent or more from such Index, as issued for the month of January, 1964, by said Bureau, then royalties and minimum royalties as provided in paragraph 3.2 shall be adjusted proportionately to the change in such Index, such adjustment to apply to all royalties accruing during said year, commencing on January 1. Should the United States Department of Labor (or such instrumentality of the United States Government as might succeed to its function) in any year, fail to publish said Index, or should such Index as published fail to serve the intention of the parties in the premises, then the parties shall forthwith try to find another appropriate and mutually acceptable Index or other means of carrying out their intention, and on their failure to do so, they shall submit the same to arbitration, under standard arbitration procedures.

4.8 In the event of default by LICENSEE in any of the provisions hereunder, including failure to pay any sums due hereunder, for a period of thirty (30) days after the same become due, LICENSOR shall have the right to terminate this Agreement and all of the rights of LICENSEE in said franchise territory shall terminate. Interest at a rate equal to the prime rate of Nashville, Tennessee, plus one (1%) percent in addition thereto, per annum, shall accrue on all unpaid items, and if said items in default are placed in the hands of an attorney for collection, LICENSEE agrees that it shall be liable for court costs and reasonable attorneys fees so incurred. Should a petition in bankruptcy or other insolvency proceedings be filed by or against LICENSEE and LICENSEE fails to procure the discharge of said proceedings within ninety (90) days thereafter, or in the event a receiver be appointed for LICENSEE'S assets and LICENSEE fails to procure the discharge of such receiver within ninety (90) days of his appointment, LICENSOR may, without prejudice to any of its rights hereunder, declare all of LICENSEE'S rights hereunder terminated.

4.9 On the expiration of this contract without renewal, or upon termination for any cause, LICENSOR shall have the right, but shall not be required, to repurchase the casting machine hereby sold to LICENSEE at the then fair market value of said machine. The fair market value of said machine shall be determined under standard arbitration procedures.

4.10 Should any provisions of Part 1 of this Agreement or Part 2 of this Agreement be illegal or in contravention of law, such provision shall be considered null and void, but the remainder of Part 1 and Part 2 of this Agreement shall not be affected thereby.

4.11 For the purpose of sending notices, reports, and other correspondence under this Agreement, the address of the parties, unless and until changed by notice in writing, shall be:

LICENSOR: SPAN-DECK, INC.
Confederate Drive
Franklin, Tennessee

LICENSEE: FABCON, INCORPORATED
4444 Rauenhorst Circle
Minneapolis, Minnesota 55435

4.12 LICENSEE'S plant or plants shall be located at or near the Minneapolis-St. Paul Metropolitan area, within the counties of Hennepin, Ramsey, Dakota, Scott, Carver, Wright, Anoka, or Washington County. LICENSEE shall have the right to erect additional plants within its franchised area under Part 1 of this Agreement, so long as said plants are not located nearer than fifty (50) miles to the Southerly or Easterly border of its franchise territory.

4.13 During the term of this Agreement and any extension thereof, and so long as LICENSEE shall not be in default hereunder, LICENSOR will not grant to any other person, firm, or corporation, the right to manufacture SPAN-DECK products within the franchise territory hereinafter defined, and LICENSOR agrees that it shall not manufacture SPAN-DECK products within the franchise territory hereinafter defined. The franchise territory is defined as follows:

(a) The entire State of Minnesota.

(b) That part of North Dakota lying Easterly of the Westerly boundary line of the following counties of North Dakota, to wit: Tembina, Walsh, Grand Forks, Traill, Cass, and Richland counties.

(c) All that part of the State of Wisconsin lying West of the Easterly lines of the following counties in the State of Wisconsin: Iron, Price, Taylor, Clark, Jackson, and Monroe counties, and lying North of the South line of the following counties in the State of Wisconsin: Lacrosse and Monroe counties.

4.14 If at any time during the term of this Agreement or any renewal term, LICENSOR grants to a third party, in the Continental United States, a SPAN-DECK franchise contract on more favorable royalty terms than those then payable by the LICENSEE under the provisions of paragraph 3.2 hereof, then from and after the date of the granting of such SPAN-DECK franchise contract to such third party, the royalty payments due from LICENSEE under paragraph 3.2 hereof shall be reduced to the amount required to be paid under such SPAN-DECK franchise contract to such third party. The LICENSOR shall not later than ten (10) days after granting such SPAN-DECK franchise contract on more favorable terms, deliver a signed photocopy thereof to the LICENSEE. The provisions of this paragraph 4.14 shall also apply to the renegotiation of any SPAN-DECK franchise contract presently existing between LICENSOR and a third party LICENSEE.

4.15 LICENSEE shall immediately give LICENSOR written notice of any notice of infringement received by it and of any claim of infringement and of any suit or suits threatened or brought against LICENSEE for infringement of any patent or patents existing on the date of this Agreement involving LICENSEE'S right to manufacture SPAN-DECK products. LICENSOR, at its sole cost and expense agrees to indemnify, defend, and hold harmless the LICENSEE with respect to any such claims or suits. Provided that LICENSOR indemnifies, defends, and holds harmless the LICENSEE as aforesaid, LICENSOR shall be entitled to direct such defense and to settle or otherwise dispose of such claim or suit, as it sees fit, and LICENSEE will cooperate with LICENSOR in such legal action in accordance with the provisions of paragraph 4.1 hereof.

4.16 Part 1 and Part 2 of this Agreement shall be construed, and the legal relations of the parties hereto determined, in accordance with the laws of the State of Tennessee.

Part 2.

Option Agreement for Additional Span-Deck Franchise Contract

1. LICENSEE shall have the option to enter into a second SPAN-DECK franchise contract with LICENSOR for the territory set forth in paragraph 2 below on the same terms and conditions as set forth in Part 1 of this Agreement; subject however, to the terms and conditions of Part 2 of this Agreement. The provisions of said additional SPAN-DECK franchise contract shall be identical to the terms and provisions of paragraphs 1 through 4.11, and 4.14 through 4.16 of Part 1 of this Agreement.

2. During the term of said second franchise agreement and any extension thereof, and so long as LICENSEE shall not be in default thereunder, LICENSOR will not

grant to any other person, firm, or corporation, the right to manufacture SPAN-DECK products within the territory hereinafter defined, nor will LICENSOR manufacture SPAN-DECK products within the terrory hereinafter defined. Said territory for said additional SPAN-DECK franchise contract is defined as follows:

(a) That part of the State of Wisconsin lying East of the Westerly line of the counties of Vilas, Oneida, Lincoln, Marathon, Wood, and Juneau counties, and lying North of the South line of the counties of Juneau, Adam, Marquette, Green Lake, FonDuLac, and Sheboygan counties, Wisconsin.

(b) All that part of the State of Wisconsin lying South of the North line of the following counties: Vernon, Sauk, Columbia, Dodge, Washington, Ozaukee counties, Wisconsin, and the following counties of the State of Illinois: McHenry, Lake, Kane, DePage, and Cook counties, Illinois.

3. LICENSEE'S plant or plants shall be located in the following county or counties: Walworth, or Kenosha counties, Wisconsin; McHenry, Lake, Kane, DuPage, or Cook counties, Illinois. LICENSEE shall erect such plants within twelve (12) months after entering into said additional SPAN-DECK franchise contract, and will purchase a casting machine from LICENSOR for said plants at LICENSOR'S current price list then in effect, and will otherwise observe all terms and conditions of Part 1 of this Agreement with respect to said additional SPAN-DECK franchise contract.

4. Provided that LICENSEE be not in default in the terms and conditions of Part 1 of this Agreement, LICENSOR grants to LICENSEE the exclusive option to enter into said additional SPAN-DECK franchise contract for the territory set forth in paragraph 2 of this Part 2 at the times and in accordance with the conditions of this paragraph 4:

(a) LICENSEE shall have the option to enter into said additional SPAN-DECK franchise contract for a period of twelve (12) months from the date hereof or until LICENSEE'S plant for the franchise territory covered by Part [illegible] of this Agreement is in operation, whichever first occurs.

(b) At such time as LICENSEE'S plant for the franchise territory under Part 1 of this Agreement commences operations and provided that said plant commences operations within twelve (12) months from the date hereof, the LICENSEE shall have the option to enter into said additional SPAN-DECK franchise contract for a period of twelve (12) months, commencing on the date when LICENSEE'S plant servicing the franchise area covered by Part 1 of this Agreement commences operations.

(c) In the event that LICENSEE'S plant servicing the franchise territory covered by Part 1 of this Agreement has installed 1,000,000 square feet of SPAN-DECK products during its first twelve (12) months of operation, or in the alternative if LICENSEE has paid to LICENSOR a sum equal to the royalties to be due and payable on the installation of 1,000,000 square feet of SPAN-DECK products, LICENSEE shall have the option to enter into said additional SPAN-DECK franchise contract for a twelve (12) month period commencing with the end of LICENSEE'S first year of operations on the plant servicing the franchise territory covered by Part 1 of this Agreement.

5. In the event that LICENSEE shall have qualified for the option set out in subparagraph 4(c) above, it shall have the right of first refusal, as hereinafter defined, to execute said additional SPAN-DECK franchise contract for the territory set forth in paragraph 2 hereof for an additional twelve (12) months, commencing on the termination of the option granted by the provisions of subparagraph 4(c) above. LICENSEE'S right of first refusal shall be defined as and be governed by the following terms and conditions:

(a) In the event that LICENSOR is desirous of excuting a SPAN-DECK franchise contract for the territory set forth in paragraph 2 hereof or any portion thereof, LICENSOR shall deliver to LICENSEE, in writing, a copy of said proposed SPAN-DECK franchise contract for such territory or any portions thereof executed by the LICENSEE.

(b) The LICENSOR shall not execute any such SPAN-DECK franchise contract for the territory set forth in paragraph 2 of this Part 2 or any portion thereof prior to fulfilling its obligations under this paragraph 5.

(c) Any such proposed SPAN-DECK franchise contract for the territory set forth in paragraph 2 of this Part 2 or any portion thereof shall be a bona fide offer by a licensee to enter into a SPAN-DECK franchise contract.

(d) Within sixty (60) days after receipt of said proposed contract by said LICENSEE from LICENSOR, the LICENSEE shall enter into a franchise contract with LICENSOR in accordance with the terms and provisions of Part 1 hereof, save and except as the same may be modified by the provisions of Part 2 of this Agreement, and shall deliver to the LICENSOR two (2) or more copies of a SPAN-DECK franchise contract for the territory set forth in paragraph 2 of this Part 2.

(e) Within fifteen (15) days after receipt by LICENSOR of a SPAN-DECK franchise contract for the territory set forth in paragraph 2 of this Part 2, the LICENSOR shall execute and deliver a signed copy thereof to LICENSEE.

6. In the event that LICENSEE and LICENSOR have entered into an additional SPAN-DECK franchise contract pursuant to Part 2 of this Agreement, LICENSOR shall thereafter have the right to issue to a third party licensee a SPAN-DECK franchise contract for that part of the franchise territory described in subparagraph 2 (a) above,

subject to LICENSEE'S right of first refusal as set forth in paragraph 5 above. In the event that the LICENSEE has put into operation a plant for the manufacture of SPAN-DECK products in the territory set forth in subparagraph 2 (a) above, LICENSOR shall thereafter have no right to issue additional franchise contracts in the territory described in paragraph 2 above.

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be executed by their duly authorized officers the day and year first above written.

IN THE PRESENCE OF:

/s/ Nancy J. Nujen

(CORPORATE SEAL)

IN THE PRESENCE OF:
/s/ Dorothy Oberg

/s/ Bobbie J. Hughes

SPAN-DECK, INC.
BY /s/ W. E. Mitchell
Its President

By /s/ John P. McGrew
Its Vice President

FABCON, INCORPORATED
By /s/ David W. Hanson
Its President

By /s/ Loren Kinghorn Jr.
Its V.P.

Exhibit 1

To the Franchise Agreement
Dated September 1970 Between
Span-Deck, Inc. and
Rauenhorst Corporation
Minneapolis, Minnesota

A The following machinery and equipment is to be supplied by Licensor to Licensee:

2 *Stress Frames* - The rolling stress frame serves as a carriage during the manufacturing process of precast, prestressed concrete product. The stress frame travels on A.S.C.E. 40 pound rails placed on an 8'-0" gauge. The wheels on the rolling bed are 12 inches in diameter, forged steel with machined and hardened treads, and spaced 20 feet on centers. The maximum wheel load is 12,000 pounds per wheel. The stress frame consists of two stress beams, 16 inches deep, 58 pounds per foot wide flange beams, one drive beam, 16 inches deep, 28 pounds per foot wide flange beam, miscellaneous cross members, jacking abutments. wheels, and slipform storage rack. One abutment will be moveable, actuated by hydraulically operated screws, for stressing the strands, with controls located at each end of the pallet. The stress frame will weigh approximately 210 pounds per lineal foot. The extension will be similar to the stress frame except for the two 16 inch deep beams and will weigh approximately 150 pounds per lineal foot. Walkways of expanded metal grading will be provided on the stress frame. The stress

frame and extension will be manufactured and shipped in 40 foot sections.

Nominal dimensions of 13 feet wide by 613 feet long, complete to receive sideform actuators, pallet, and sideforms for 1 bed (8 foot wide by 500 feet long).

Maximum stressing arrangement is 12½" diameter stands at 2" eccentricity plus 3½" diameter strands at 10" eccentricity, resulting in a stressing force of 430 kips.

103,000.00

2 *Sideforms* - The sideforms are an extruded aluminum shape with a grout key and are of the standard shape. The basic element is 8 inches deep. Four inch deep aluminum channels will be supplied and used in the production of the 12 inch deep product. Both the sideforms and risers are bolted to the pivoted portion of the sideform actuators. The sideforms and risers will be supplied in 30 foot lengths. 2,000 lineal feet of standard 8 inch deep aluminum sideforms and 2,000 lineal feet of 4 inch deep aluminum risers, for installation 2 beds 500 feet long.

8.200.00

2 *Sideform Actuators* - The sideform actuators are a hydraulically operated ladder and cam system used for raising and lowering the sideforms. The ladder assembly, approximately 8 foot wide and 500 foot long, is supported by the cross members of the stress frame. The pivoted portion of the actuators are attached to the pallet with the upper

portion being bolted to the sideforms. Two hydraulic cylinders located at one end are used to move the ladder and cam assembly in a push-pull fashion. Riser plates attached to 4 inch deep channels are hinged to the pivoting portion of the sideform actuators and used in the production of the 12 inch deep product. Operating time in raising or lowering the sideforms is approximately 10 seconds.

Assembly includes ladder, cams, pivot plates, riser pivots, two hydraulic cylinders, and attaching hardware, suitable for 2 beds, 8 feet x 500 ft. long.

13,500.00

2 *Drive Units* - Consists of 2 opposed, fork lift truck type, solid rubber treaded tires, each driven by a 25 H.P. variable speed electric drive. Electronically controlled for close speed regulation at any set speed, up to 80′ per minute, by means of remote potentiometers, located at the operators stations near the saw and casting machine. Motor controls will be arranged for proper load sharing should one tire wear faster than the other, and will be provided for braking and reversing of the bed. The unit will be furnished with power wiring for 460-3-60 current supply, starting with a disconnect switch, and terminating at the motors. All enclosures will be NEMA 12 or 4 type.

Control wiring cables will be supplied by the manufacturer for installation by customer, for connecting drive units to control stations. The drive unit is to be located in a concrete pit near the entrance to the curing kiln. It will be necessary that the pit be protected from excess water.

The drive unit will be provided with mounting brackets for attachment to walls and floors of the pit. Weld plates for mounting will be supplied by customer.

A supply of compressed air at 150 minimum psi will be furnished by the customer, for operation of the drive unit. Manufacturer will furnish a line filter, lubricator and pressure reducing valve for the pneumatic circuit.

26,000.00

1 *Casting Assembly* - The casting assembly consists of a slipform frame, used for casting the webs and top flange of the product, and a hopper assembly used either for casting a dry bottom or a wet bottom flange. Concrete will be fed from two receiving hoppers. The slipform frame will be electrically raised and lowered and contain individually controlled core material gates, hydraulically operated. The hopper for placing either the wet bottom or dry bottom flange will be raised and lowered electrically. The casting assembly will be hydraulically moved from bed to bed.

Assembly includes slipform frame and related equipment for casting webs and top flange, distribution hopper and related equipment for casting bottom flange (wet or dry material), packing wheels for compacting outside dap-outs of dry bottom, secondary screed, and related structural sup-

	ports suitable for attaching to foundations, on which the casting assembly and receiving hoppers are transferred.	14,500.00
1	*Receiving Hopper Assembly* - Consisting of 2 concrete hoppers each with a capacity of 5 yards and a core material hopper with a capacity of 175 cu. ft. for distribution into casting assemblies. The assembly is designed to transfer with the casting assembly from one bed to the other. The gates on the concrete hoppers and on the core material discharge hopper will be hydraulically operated. Concrete gates will be actuated by sensors located in the distribution hoppers of the casting assembly.	7,000.00
2	*Slipforms* - Two sets of slipforms, one for producing the 8 inch deep product and the other for producing the 12 inch deep product, are used to form the shape of the void and are attached to the slipform frame with bolts.	4,000.00
1	*Saw* - The saw assembly shall consist of a self-powered Span-Deck, Inc. saw, equipped with a sixty (60) hp blade motor, automatic cross cutting cycle, swivel head for making longitudinal cuts, and a swivel upper frame for making skew cuts to a maximum of 45 degrees. The bed saw will be mounted on suitable structural frame and tracks and manually moved from bed to bed.	19,000.00
2	*Brush, Oiler & Scraper* - The function of this	

	piece of equipment is to remove large deposits of core material left on the bed, remove water from the pallet and sideforms, and apply a releasing agent to the pallet and sideforms. This piece of equipment will be stationary and will be manually raised and lowered. Includes supporting framework.	7,000.00
1	*Power Unit* - The power unit consists of a 10 hp AC motor, and 8 gallon per minute hydraulic pump, and necessary controls and used to provide power for stressing the prestressing strands, raising and lowering the sideforms, and operating the hydraulic components on the casting assembly and roller assembly.	2,600.00
1	*Bottom Steel Inserter* - Mechanically raised and lowered by push button control, steel will be loaded into the device magazine manually, push control of air cylinders will be utilized to insert steel into bottom concrete. The steel magazine will feed steel into the plunge head with an electric drive-step clutch arrangement which will also be controlled by an electrical switch.	6,500.00
1	*Top Steel Inserter* - This device to operate in the exact manner as the bottom steel inserter with the exception that it is designed to accept top steel and to insert this steel at a different height.	6,500.00
1	*Lifting Loop Inserter* - This assembly will operate in a similar manner to both the bottom and top	

steel inserters with the exception that this machine will be designed to accommodate lifting loops rather than either bottom or top steel.

	7,500.00
TOTAL	$225,300.00

and do not include freight, field assembly, installation and state taxes including use or sales tax.) Except as noted.

B. The terms of payment by License to Licensor are as follows:

Net Thirty (30) days after delivery.

C. The schedule of delivery of the equipment to be furnished by Licensor is as follows:

Stress Frame	February 15, 1971
Drive Unit	February 15, 1971
Sideform Actuators	February 15, 1971
Sideforms	February 15, 1971
Casting Assembly	March 1, 1971
Receiving Hopper Assembly	March 1, 1971
Slipforms	March 1, 1971
Saw	March 1, 1971
Brush, Oiler & Scraper	March 1, 1971
Power Unit	March 1, 1971
Bottom Steel Inserter	March 1, 1971
Top Steel Inserter	March 1, 1971
Lifting Loop Inserter	March 1, 1971
Stress Frame	April 15, 1971
Drive Unit	April 15, 1971
Sideform Actuators	April 15, 1971

D. Machinery and equipment shall be built and supplied by Licensor in strict accordance with the plans and specifications as developed by Licensee and Licensor and approved in writing by Licensee.

E. Licensor guarantees the machinery and equipment to be free from defects in material and workmanship for a period of one (1) year from the date of delivery to Licensee. Should the machinery and equipment be defective in any manner, Licensor at its option shall either (1) replace the defective part, (2) if necessary, authorize the machinery and equipment to be returned to a place designated by it for repairs, or (3) authorize repairs to be made at Licensee's plant or locale. All defects shall be repaired at Licensor's expense except Licensee shall reimburse Licensor in the amount of reasonable travel and living expenses incurred by Licensor's representative in connection with installation at Licensee's plant. Licensor shall not be responsible for alterations or repairs made by Licensee without Licensor's written consent and approval. Licensor's guarantee on electrical equipment, commercial parts and equipment of outside manufacture shall not extend beyond the period of the guarantee provided by the original manufacturer. Licensee shall cooperate with Licensor by providing normal machine shop hand and power tools, such as drills, welding machines, wrenches, etc., for use by Licensor at Licensee's plant.

APPENDIX H

Constitutional and Statutory Provisions

United States Constitution, Amendment VII

In Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury shall be otherwise re-examined in any Court of the United States, than according to the rules of the common law.

§103. Conditions for patentability; non-obvious subject matter

A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.

§112. Specification

The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention.

The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.

* * *

An element in a claim for a combination may be expressed as a means or step for performing a specified function without the recital of structure, material, or acts in support thereof, and such claim shall be construed to cover the corresponding structure, material or acts described in the specification and equivalents thereof.

* * *

§282. Presumption of validity; defenses

* * *

In actions involving the validity or infringement of a patent the party asserting invalidity or noninfringement shall give notice in the pleadings or otherwise in writing to the adverse party at least thirty days before the trial, of the country, number, date, and name of the patentee of any patent, the title, date and page numbers of any publication to be relied upon as anticipation of the patent in suit or, except in actions in the United States Court of Claims, as showing the state of the art, and the name and address of any person who may be relied upon as the prior inventor or as having prior knowledge of or as having previously used or offered for sale the invention of the patent in suit. In the absence of such notice proof of the said matters may not be made at the trial except on such terms as the court requires.

APPENDIX I

Subsidiaries of St. Regis

A. *Wholly Owned*

1. Angelina Casualty Company
2. Bucksport Water Company
3. Erickson Engineering Company
4. Maine Seaboard Paper Company
5. Mopang Dam & Improvement Company
6. Montana Light & Power Company
7. Packaging System International, Inc.
8. St. Regis International Capital Corporation
9. St. Regis Land Development Corporation
10. St. Regis Service Corporation
11. Security Assurance Company
12. Southland Energy Company
13. Span-Deck, Inc.
14. Strylease Corporation
15. The Wilkeson Company
16. St. Regis Pan Am Ltd.
17. Protective Insurance Underwriters, Inc.

B. *Partially Owned*

Panning Lumber & Supply Company, Inc. (80% owned)
Angelina & Neches River Railroad Company (50% owned)
Sylvachem Corporation (50% owned)

Office - Supreme Court, U.S.
FILED
OCT [illegible] 1982
ALEXANDER L. STEVAS,
CLERK

No. 82-399

IN THE

Supreme Court of the United States

October Term, 1982

SPAN-DECK, INC.,
Petitioner,

v.

FABCON, INCORPORATED, and
RAUENHORST CORPORATION,
Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

RESPONDENTS' BRIEF IN OPPOSITION

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224-7633 — [illegible] Publishing Co., 287 E. 6th St., St. Paul, Minn. 55101 — 224-7633

QUESTIONS PRESENTED

I. Where a license agreement included both patent and nonpatent rights, and the supporting patents were held invalid, or not infringed, did the Court of Appeals err in holding that the licensor could recover only the value of the nonpatent consideration prior to the agreement's expiration rather than the entire unapportioned royalty provided in the agreement?

II. Did the Court of Appeals err in holding a patent invalid for obviousness as a matter of law under *either* of two accepted standards of review?

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UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

RESPONDENTS' BRIEF IN OPPOSITION

Respondents Fabcon, Incorporated ("Fabcon"), and Rauenhorst Corporation ("Rauenhorst")[1] respectfully request that this Court deny the petition for writ of certiorari, seeking review of the judgment of the United States Court of Appeals for the Eighth Circuit in this case.

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[1] Fabcon is a wholly-owned subsidiary of Rauenhorst. Since the decision of the Court of Appeals in this action, Rauenhorst has changed its name to Opus Corporation; its former name will be used here for consistency with the opinions below. Rauenhorst has no other subsidiaries, apart from wholly-owned subsidiaries.

OPINIONS BELOW

The petition seeks review of a decision of the United States Court of Appeals for the Eighth Circuit (677 F.2d 1237;[2] Petition, App. A), which vacates the judgment of the United States District Court for the District of Minnesota and remands the action for further proceedings, including a partial retrial. The opinion of the District Court, which is unreported, is set out in Appendix B to the petition.

STATEMENT OF THE CASE

In October 1970, Fabcon entered into a license agreement with petitioner Span-Deck, Inc. ("Span-Deck"), relating to the manufacture of hollow-core concrete plank. The agreement provided that Span-Deck would grant Fabcon a license under two patents (the "Kinnard" patent, U.S. Patent No. 3,217,375, and the "Mitchell" patent, U.S. Patent No. 3,523,343) which was exclusive in a specific territory; sell Fabcon equipment for manufacturing concrete plank; make Span-Deck's experience and knowledge, its know-how and trade secrets, available to Fabcon; and grant exclusive rights to two Span-Deck trademarks. In addition to the purchase price for the equipment, Fabcon agreed to pay Span-Deck an unapportioned royalty based on Fabcon's production of concrete plank. Fabcon was granted the right to terminate the agreement if the licensed patents were held invalid or not infringed. (Petition, App. G, p. A-77, ¶ 4.1.)

Fabcon made royalty payments from July 1971 until February 1973. In April 1973, the president of Rauenhorst, Fabcon's sole owner, informed an officer of St. Regis Paper

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[2] The citation in the petition is incorrect.

Co., the sole owner of Span-Deck, that Fabcon and Rauenhorst believed the Kinnard and Mitchell patents were invalid, and urged unsuccessfully that the agreement be terminated by mutual consent. Fabcon never resumed the payment of royalties. In April 1975, Fabcon gave Span-Deck written notice of non-renewal of the agreement upon its initial scheduled expiration in October 1975.

Span-Deck commenced this action in November 1973, alleging, *inter alia*, that Fabcon's failure to pay royalties was a breach of the agreement and that Rauenhorst had induced that breach.[3] Fabcon and Rauenhorst answered that their conduct was not improper because the Kinnard and Mitchell patents were invalid, and, therefore, under *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), Fabcon's contractual obligation to pay the stated royalty was unenforceable. They counterclaimed for a declaratory judgment that Span-Deck's patents were invalid and/or not infringed.

This action was tried between November 1980 and February 1981. In response to special verdict questions (Petition, App. C), the jury found that Span-Deck's patents were valid, that Fabcon had breached the agreement, and that Rauenhorst had induced Fabcon's breach.[4] Judgment was entered by the District Court. On post-judgment motions by Fabcon and Rauenhorst, the District Court determined, as a matter of law, that the Kinnard patent was not infringed by Fabcon's manufacture of concrete plank.[5] In all other respects, the District Court refused to disturb its judgment.

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[3] "Alternative" theories were also asserted, including, *inter alia*, patent and trademark infringement and misappropriation of trade secrets.

[4] Findings favorable to Span-Deck were also returned on its "alternative" theories of patent infringement and misappropriation of trade secrets. However, judgment was never entered on these findings.

On appeal, the United States Court of Appeals for the Eighth Circuit vacated the judgment below, and reversed and remanded for further proceedings. It held, first, that the Mitchell patent was invalid as a matter of law, concluding that the evidence was inadequate to support the jury's findings on the issue of obviousness, regardless of whether those findings were reviewed on a "substantial evidence" test or on an independent evaluation of the evidence by the appellate court. (Petition, App. A, pp. A-9-16; 677 F.2d at 1241-45.) Second, applying the decisions of this Court in *Lear, Inc. v. Adkins, supra,* and *Aronson v. Quick Point Pencil Co.,* 440 U.S. 257 (1979), the Court of Appeals held that, since one of the licensed patents was invalid and the other was not infringed, Fabcon was justified in discontinuing payment of the stated royalty, and Rauenhorst, Fabcon's parent, was entitled as a matter of law to encourage Fabcon's conduct. (Petition, App. A, pp. A-16-23, A-27; 677 F.2d at 1245-47, 1249.)

Contrary to repeated implications in the petition, the Court of Appeals did not hold the agreement void in its entirety or deny Span-Deck all relief thereunder. Instead, it remanded this action to the District Court for a determination of the value of any nonpatent rights which Fabcon had received under the agreement, but had not paid for, before the agreement expired in October 1975, and also remanded for a determination of Span-Deck's claims for Fabcon's alleged post-expiration use of trade secrets. (Petition, App. A, p. A-27; 677 F.2d at 1249.)[6]

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[5] Span-Deck did not appeal this determination.

REASONS FOR DENYING THE WRIT

I. THE DECISION OF THE COURT OF APPEALS DOES NOT INTRUDE ON STATE LAW CONSIDERATIONS, AS CLAIMED BY PETITIONER, AND FOLLOWS PRIOR DECISIONS OF THIS COURT.

Span-Deck attempts to pique this Court's interest in its petition by characterizing the issue as one of federalism, suggesting that the decision below intrudes to an extent unwarranted by federal patent policy on state principles of contract law. This characterization ignores the crucial significance of the Court of Appeals' remand to the District Court and fails to recognize that the Court of Appeals' decision was compelled by *Lear, Inc. v. Adkins, supra.*

A. The Court of Appeals refused to enforce the agreement only to the extent that its patent consideration had failed, and remanded for a valuation of any remaining consideration.

Span-Deck would have this Court believe that the Court of Appeals invalidated the Span-Deck/Fabcon agreement and ignored the possible existence, and value, of valid non-patent consideration. This is simply untrue. All the Court of Appeals held was that: (1) because all patent consideration supporting the agreement had entirely failed,[7] the obligation to pay the stated, unapportioned royalty was unenforceable; and (2) because the agreement did not expressly apportion royalties between patent and nonpatent consideration, further proceedings in the District Court were necessary to ascertain the value to Fabcon of whatever nonpatent rights had been conveyed by Span-Deck before the agreement expired.

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[6] The Court of Appeals' discussion (Petition, App. A, pp. A-22-23; 677 F.2d at 1247) of *St. Regis Paper Co. v. Royal Industries*, 552 F.2d 309 (9th Cir.), *cert. denied*, 434 U.S. 996 (1977), and its unexplained citation of *Dusenka v. Dusenka*, 221 Minn. 234, 21 N.W.2d 528 (1946), may indicate that the Court had in mind a quasi-contract or unjust enrichment theory, rather than a contract theory, as the basis for a possible recovery by Span-Deck. Whatever the theory, however, the result is the same—Span-Deck may be compensated for the value of any nonpatent consideration which it provided to Fabcon pursuant to the agreement if it can establish that such consideration possessed an independent value.

The Court of Appeals' decision follows directly from this Court's holding in *Aronson v. Quick Point Pencil Co., supra.* The Court of Appeals had held, in *Aronson,* that the invalidity of patents underlying a "hybrid" license freed the licensee of its entire obligation to pay royalties, despite the fact that the contract expressly apportioned part of the royalties to nonpatent consideration. This Court reversed, holding that the refusal to enforce the apportioned royalty for nonpatent rights was an interference with state contract law beyond that warranted by federal patent law policies.

Here, by contrast, the Court of Appeals made no such intrusion. It declined to enforce the agreement *only* to the extent demanded by the federal patent policy prohibiting the extraction of a royalty for invalid or noninfringed patents. It left untouched the normal principles of state law with respect to Fabcon's obligation to pay for any valid nonpatent consideration it may have received from Span-Deck while the agreement was in effect. The procedural result in this case (remand for determination of the value of nonpatent consideration) differs from the result mandated by this Court in *Aronson* (enforcement of the obligation to pay the apportioned royalty for nonpatent rights) only because here, unlike *Aronson*, the agreement failed to apportion the stated royalty between patent and nonpatent rights.[8] The result here is exactly the same as the result this Court declined to review, on substantially identical facts, in *St. Regis Paper Co. v. Royal Industries*, 552 F.2d 309 (9th Cir.), *cert. denied*, 434 U.S. 996 (1977).

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[7] Contrary to repeated assertions in the petition there was no valid patent consideration to support the agreement. The Mitchell patent was, of course, held invalid. While the Kinnard patent was held to be valid, the District Court held (also contrary to the jury's verdict) that it was not infringed by Fabcon. The agreement specifically equated patent invalidity and noninfringement as grounds for termination. (Petition, App. G, p. A-77, ¶ 4.1.)

B. The limitation on *Lear* urged by Span-Deck was rejected in *Lear* itself as inconsistent with the federal patent policies underlying that decision.

In *Lear, Inc. v. Adkins*, *supra*, this Court held that, in order to encourage challenges to patents of questionable validity, federal patent policy requires—notwithstanding state law or contract provisions to the contrary—that a licensee be allowed to withhold royalties while litigating its challenge to a licensed patent. If the challenge succeeds, the accrued unpaid royalties never need be paid; if it fails, the licensee is liable for breach of contract. Span-Deck contends, however, that the rule is different where nonpatent, as well as patent, rights are involved. In Span-Deck's view, the recitation of nonpatent consideration in the license agreement required Fabcon, despite *Lear*, to continue paying full royalties until its challenge to the patents succeeded, and to continue such payments thereafter as long as the agreement remained in effect.

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[8] The same certainty and clarity provided by apportionment of the single royalty in *Aronson* would also have been possible here if Span-Deck had licensed its patents and its nonpatent rights, if any, separately instead of "bundling" both unenforceable patent rights and nonpatent rights in a single license agreement.

An identical argument was raised, and specifically rejected by this Court, in *Lear*. Like this case, *Lear* involved, not a pure patent license, but a "hybrid" license including nonpatent consideration (the disclosure of Adkins' invention to Lear before the patent issued) as well as a patent license. Adkins took the "extreme position" (identical to Span-Deck's position here) that the presence of nonpatent consideration obligated Lear to pay the entire royalty provided by the contract for the entire term of the contract "without regard to the validity of the Patent Office's grant." 395 U.S. at 672. This Court rejected the argument, holding that Lear could withhold *all* royalties pending litigation and that, if the patent was ultimately held invalid, it would be freed from *all* royalties *at least* from the date the patent issued. This Court reasoned that to vary the licensee's rights depending on the presence of nonpatent consideration would create a loophole in the general rule which would "disabl[e] entirely all those who have the strongest incentive to show that a patent is worthless." *Id.* This reasoning compels as well the rejection of the position urged by Span-Deck, as the Court of Appeals specifically recognized. (Petition, App. A, p. A-23, n. 12; 377 F.2d at 1247, n. 12.)

C. Summary.

The Court of Appeals carefully distinguished between Fabcon's right to be freed from royalty payments for failed patent consideration and its obligation to pay for whatever nonpatent consideration it received until the license agreement expired in October 1975. This distinction accords precisely with this Court's ruling in *Aronson*. Span-Deck's attempt to retain the entire contract royalty on account of partial nonpatent consideration is specifically precluded by *Lear*. In sum, Point I of the petition raises no question on which this Court has not already ruled clearly, and the petition should therefore be denied.

II. THIS CASE IS NOT AN APPROPRIATE VEHICLE FOR RESOLUTION OF THE PERCEIVED SPLIT OF AUTHORITY CONCERNING THE PROPER STANDARD OF APPELLATE REVIEW OF ISSUES OF PATENT INVALIDITY FOR OBVIOUSNESS.

Stripped of rhetoric, Points II and III of the petition amount in large measure to a request that this Court second-guess the Court of Appeals' review of the evidentiary support for the jury verdict[9] by examining that evidence itself. This is the predictable response of any litigant who obtains a verdict in the trial court, only to be told by an appellate court that a verdict should have been directed against it. It is clear beyond question that Seventh Amendment rights are not infringed when a court, applying proper standards, grants

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[9] Even this may give Point II more credit than it deserves. Contrary to the impression given by the petition, the Court of Appeals' ruling that Rauenhorst was justified, as a matter of law, in encouraging Fabcon's termination of royalty payments did not set aside a jury finding on the question. The jury was never instructed on the "justification" element of inducement of breach of contract, as required by Minnesota law, or on Rauenhorst's *Lear* defense based on that element. Therefore, no finding on that element can be inferred from the jury's verdict. Rauenhorst asserted in the Court of Appeals that these failures of instruction were reversible error, but the Court did not have to reach the question. (Petition, App. A, p. A-19; 677 F.2d at 1246.)

a directed verdict, *Galloway v. United States*, 319 U.S. 372, 389 (1943), or a judgment notwithstanding the verdict. *Baltimore & Carolina Line, Inc. v. Redman*, 295 U.S. 654 (1935); *Manaia v. Potomac Electric Power Co.*, 268 F.2d 793 (4th Cir.), *cert. denied*, 361 U.S. 913 (1959).

In an effort to raise an issue more worthy of this Court's attention than a mere question of fact, Span-Deck also contends that there is a split of authority among the courts of appeals as to the proper standard of review of jury determinations on questions of a patent's obviousness. It urges this Court to accept this case as a means of resolving the conflict.

There is, in fact, some disagreement among the circuits as to the relative weight to be given to jury findings bearing on the ultimate legal issue of obviousness.[10] This case is not the appropriate vehicle for resolving that disagreement. Far from adopting one side or the other of the perceived dispute among other circuits, the Court of Appeals in this case specifically declined to take a position on the question. Instead, it reviewed the evidence concerning the Mitchell patent's obviousness according to *both* the "substantial evidence" test *and* the "independent evaluation" approach, and concluded that the jury's verdict could not be sustained under *either* standard. (Petition, App. A., p. A-9; 677 F.2d at 1242.)

Given this treatment of the standard of review conflict, it would be impossible for this Court to dispose of this case merely by deciding which is the correct standard. It would inevitably be necessary for the Court to go further and consider whether the applicable standard was properly applied to the facts presented in this case. Such a foray into the record of the 35-day trial in this patent case should not commend itself to the consideration of this Court, especially in light of the Court of Appeals' conclusion "that the Mitchell patent is so clearly invalid that no jury question was made out." (Concurring opinion of Judge Arnold, Petition, App. A, p. A-28; 677 F.2d at 1250.)

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[10] This Court has denied certiorari petitions asking that it rule on the proper standard of review of a jury's findings relating to obviousness at least twice in the past two years. *Control Components, Inc. v. Valtek, Inc.*, 609 F.2d 763 (5th Cir.), *cert. denied*, 449 U.S. 1022 (1980); *Dual Manufacturing & Engineering, Inc. v. Burris Industries, Inc.*, 619 F.2d 660 (7th Cir.) (en banc), *cert. denied*, 449 U.S. 870 (1980).

CONCLUSION

For the foregoing reasons, it is respectfully submitted that the petition for a writ of certiorari should be denied.
DATED: October 6, 1982.

Respectfully submitted,

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No. 82-399

IN THE

Supreme Court of the United States

October Term, 1982

SPAN-DECK, INC.,
Petitioner,
vs.
FABCON, INCORPORATED, and
RAUENHORST CORPORATION,
Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

PETITIONER'S REPLY BRIEF

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ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

PETITIONER'S REPLY BRIEF

Petitioner Span-Deck, Inc. ("Span-Deck") replies as follows to the Brief in Opposition filed by respondents Fabcon, Incorporated ("Fabcon") and Rauenhorst Corporation ("Rauenhorst"):

I.

The Decision of the Court of Appeals Intrudes on State Contract Law, Which Would Enforce a Franchisee's Royalty Obligation Where Substantial Consideration Remains After a Partial Failure of Consideration.

Misapplying this Court's decision in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), the court of appeals in the instant case improperly ruled that when a patent constitutes any part of the consideration for a franchise contract, federal patent policy bars a state from enforcing that contract despite the presence of other, valid consideration, including another valid patent.[1] This ruling, made without the careful balancing of the policies of federal patent law and state law required by this Court in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974), improperly and unnecessarily encroached upon the proper domain of state law. (Petition, Part I, pp. 9-18).

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[1] That other, valid consideration includes: supplying Fabcon with casting machinery and related items for equipping and operating a Span-Deck factory; furnishing detail drawings on the casting equipment; furnishing advisory personnel to check on Fabcon's installation and operating procedures; on an ongoing basis, making available Span-Deck's experience and knowledge, its know-how and trade secrets regarding the equipment and its use in the manufacture of all Span-Deck products and the end-use thereof and advising and consulting with Fabcon and permitting study by Fabcon of Span-Deck's processes and equipment; licensing Fabcon under Span-Deck's trademarks; assuring territorial exclusivity; and making available later designs or improvements of Span-Deck's equipment and processes. (Petition, App. G, ¶¶ 2.1-2.7, 4.13).

The consideration also includes the Kinnard patent, the validity of which the Eighth Circuit upheld. (Petition, App. A, pp. A-6 - A-7; 677 F.2d at 1240-1). The finding that Fabcon's present plant did not infringe the Kinnard patent does not render it valueless. Other Span-Deck franchisees operate plants covered by the Kinnard patent: Fabcon could have chosen to install such equipment; and its franchise contract permitted it to keep competitors from manufacturing by that method in Fabcon's territory. (Petition, App. G, ¶¶ 4.12, 4.13).

In their brief opposing the Petition for Certiorari, respondents ask that review not be granted, claiming that no question of federalism is involved, inasmuch as the court of appeals did remand the case for a determination of the value of nonpatent consideration received by respondents. That response, however, misses the point: The failure of the court of appeals to enforce the contract agreed upon by the parties is itself an unwarranted federal intrusion into state law. Where, as here, a franchise is supported by ample and substantial consideration without regard to a patent held to be invalid, a state court would enforce the royalty obligation. *See* Petition at 15. *See also Del Riccio v. Photochart,* 268 P.2d 814, 821, 124 Cal. App.2d 301 (1954); *Blackburn v. White,* 147 S.W.2d 7, 9, 201 Ark. 663 (1941); *Nichols v. Seaks,* 295 N.W. 596, 296 Mich. 154 (1941). *Cf. Lear, Inc. v. Adkins, supra,* 395 U.S. at 669 ("Under ordinary contract principles the mere fact that some benefit is received is enough to require the enforcement of the contract . . ."). This rule has its basis in the traditional and reasonable reluctance of courts to weigh the amount or relative adequacy of consideration.

The Eighth Circuit's decision not to enforce the contract provisions but to remand for a redetermination of the consideration to be paid is a direct denial of Span-Deck's state law contract rights. The Eighth Circuit's blind application of the principle of preemption, without an analysis of whether enforcement of the contract would be inconsistent with federal patent law or policy, raises questions of federalism that will have a profound impact on franchise contracts and the patent system. *See* Petition at 17-18. Those questions merit this Court's review.

Respondents' attempt to force this case into the *Lear* mold also misses the mark.[2] They assert that Span-Deck is urging a rule requiring continued payment of full royalties until respondents' patent challenges succeed. Span-Deck has not so urged. The direct holding of *Lear* is that a patent licensee is not estopped from challenging validity. The policy of *Lear* is that there should be full and free use of ideas in the public domain. Span-Deck does not contest these policies. It has not sought to prevent patent royalties from being withheld when challenging a patent. Rather, the Petition presents the separate issue that enforcement *vel non* of a franchise contract which includes patent rights is to be determined after a balancing of state and federal concerns and not mechanically foreclosed. It is one thing to be allowed to withhold royalty payments pending determination of a patent's validity and quite another to be excused from contracted for royalty obligations when that contract remains supported by substantial consideration even after a determination of patent invalidity.[3]

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[2] Respondents' argument that *Lear* controls rests in large part on respondents' continued attempt to describe the Span-Deck/Fabcon Contract as a mere patent license rather than as the franchise contract it in fact is. (*See* Petition, App. G). Much more is involved here than one patent license with prepatent disclosure of the invention, as was the case in *Lear*. *See* note 1, *supra*.

[3] Respondents' further assertion that the *Lear* Court considered and rejected the questions raised here has no basis in fact. Lear's licensor argued that his prepatent disclosure to Lear of the technology which later issued as a patent would be sufficient consideration for royalties whether or not the patent was invalidated. 395 U.S. at 672. No nonpatent consideration following issuance of the patent was claimed. Unlike the situation in *Lear*, Span-Deck claims no consideration at all in the form of prepatent disclosure to Fabcon; Span-Deck's nonpatent consideration consists of trade secrets, trademarks, continuing consultation, exclusivity and other matters which exist independent of its patents. *See* note 1, *supra*. The role of such consideration was simply not considered in *Lear*, and *Lear* states no rule as to royalty payments for such consideration either alone or as part of a larger technology package including patents.

Proof that *Lear* does not stand for the propositions respondents' urge was given by this Court in *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), where this Court reversed another Eighth Circuit determination that failure of the patent-based consideration for a contract invalidated the entire contract, even though the contract was supported by other consideration. In *Aronson*, this Court gave effect to the parties' agreement. Contrary to the assertions of respondents, it neither required nor sanctioned the action taken here by the Eighth Circuit, which ordered that the contract royalty be rewritten by the District Court to apportion consideration between patent and nonpatent value. This federal revision of a contract valid under state law was not mandated by principles of federal patent law and should be reviewed by this Court.

II.

The Court of Appeals' Decision that An Assertion of Patent Invalidity Requires Removal from State Law of the Issue of Justification for a Tortious Inducement to Breach a Contract Also Overreaches Federal Concerns.

The court of appeals also ruled that the mere assertion of patent invalidity by a party who induces another to breach a franchise contract is enough to remove the question of justification for inducing the breach from the requirements of state law. This automatic preemption of state tort law is in contravention of the reasoning of *Kewanee Oil Co. v. Bicron Corp.*, *supra*, and merits this Court's review. (Petition, Part II, pp. 19-21).

Respondents avoid the questions presented in Parts II and III of the Petition by labeling them a mere attempt to have this Court review the evidence supportive of the jury's verdict. The argument is not correct. Rather, the Petition contends that the court of appeals did not review the evidence supportive of the jury's special verdict in accordance with the substantial evidence test as the Seventh Amendment requires. This Court should grant certiorari to review the manner in which the court of appeals overreached *its* limited evidence-reviewing function. Given the nature of the appellate court's decision, little or no evidentiary review by this Court will be required.[4]

There are additional reasons why the Court should review petitioner's Question II, reasons sidestepped by respondents. Respondents are incorrect that no jury finding on the question of justification can be inferred from its verdict; as the District Court concluded, "[the] instructions clearly required the jury to make a finding that Rauenhorst Corporation acted without justification if they were to conclude Rauenhorst Corporation committed the tort." (Petition, App. B, p. A-44). The court of appeals' determination that a mere *claim* of patent invalidity conclusively resolved the question of whether Rauenhorst's total conduct was justified did take the issue from the jury. This is contrary to the clear dictates of Minnesota law. It establishes a scope of preemption for federal patent law which unnecessarily encroaches on state tort law principles described in the Petition, in contravention of the reasoning of *Kewanee Oil Co. v. Bicron Corp., supra.* That issue of accommodating state tort law in the federal patent scheme, squarely presented here, is both important and proper for this Court's review.

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[4] Depending on this Court's conclusions, the appropriate result in part might be a remand to the Eighth Circuit for its review of the evidence under proper standards.

III.

The Court of Appeals' Use of Its Own Independent Findings on Evidentiary Matters Determined By the Jury Presents this Court the Opportunity to Resolve the Disagreement in the Circuits Which Respondents Concede Exists.

The court of appeals' use of its own independent findings on evidentiary matters, despite the requirements of the Seventh Amendment and the decisions of several other circuits regarding use of the substantial evidence test in patent cases such as this. has serious implications for the administration of justice in patent cases and should be reviewed by this Court. (Petition, Part III, pp. 21-29).

Conceding that there is "disagreement among the circuits as to the relative weight to be given to jury findings bearing on the ultimate legal issue of obviousness," respondents urge the Court to conclude that this is not the case to take to review the conflict. That, of course, is the predictable response of any litigant who obtains a court of appeals decision in its favor in a controversial field; it is not a helpful response.

Respondents argue that the decision is not an appropriate vehicle for review of the conflict because the court of appeals said that it applied both standards of review to the case at hand. But simply saying that does not make it so. As petitioner has already shown, the lip service paid by the court of appeals to the substantial evidence test should not be confused with its actual application of the independent evaluation approach. (*See* Petition at 27-28.) Indeed, respondents must cite to the concurring opinion for even an oblique reference to the substantiality of the evidence.

That this Court has previously declined to review an issue such as the one presented here does not counsel against review now. Indeed, since the conflict which this Court has previously tolerated has not been resolved but rather has widened, the current situation now calls for this Court's review.

Respondents raise the spectre of review of the record of a 35-day trial. The narrow issues presented would require little reference to that record. What should be more appalling in view of the length of the trial is the failure of the court of appeals properly to weigh that record under the substantial evidence test and its blithe dismissal of the weeks of trial and the resultant jury verdict, based on its own independent determination of the facts. It is that spectre, casting a pall over all jury determinations, especially those in patent cases, which should be exorcised by the light of this Court's review.

CONCLUSION

The decision of the court of appeals unnecessarily intrudes on state contract law in a way that endangers all franchise contracts and technical assistance agreements for which patent rights form any part of the consideration exchanged. The court of appeals' failure to utilize the proper standard for review of jury determinations in patent cases exacerbates the disagreement among the circuits on the issue. The result offends both constitutional and juridical principles. The courts, litigants, and all parties who have or would have patents involved in their contracts need the guidance of this Court's resolution of these issues. Accordingly, for all the foregoing reasons here and in the Petition, petitioner respectfully requests that the writ of certiorari be granted.

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